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REPUBLIC OF CONGO

ECONOMIC UPDATE

Second Edition
September 2015



WORLD BANK GROUP

The Road to Economic Development
Fiscal Buffer in a Context of Volatile Oil Prices

GMFDR
AFRICA

Report No.: AUS11355

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TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	vii
ACKNOWLEDGMENTS	ix
FOREWORD	xi
EXECUTIVE SUMMARY	xiii
PART ONE	1
I. THE CONGOLESE ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK	3
Key messages	3
1.1 Recent economic developments.....	4
1.1.1 A solid real sector macro-economic framework in 2014	4
1.1.2 Low inflation in a context of uncertainty regarding the strength of the euro	7
1.1.3 Worsening current account deficit	8
1.1.4 First fiscal deficit in over a decade.....	9
1.2 Congo's economic outlook for 2015–2017	9
1.2.1 Moderate real sector growth expected	9
1.2.2 Low inflation outlook.....	12
1.2.3 Significant fiscal and current account deficits expected	13
1.2.4 The Congolese economy remains vulnerable to various internal and external risks.....	14
1.3 Major economic policy issues	15
1.3.1 Weak fiscal planning that leads to repeated budget revisions.....	15
1.3.2 Operation on undocumented immigrants has led to lower economic growth	16
1.3.3 Fiscal surpluses vs the apparent incapacity of the Treasury to pay its invoices on time	16
1.3.4 Gradual increase in wages in a context of reduced revenues is a source of cash flow problems	17
1.3.5 Continued deterioration in the quality of government financial data.....	18

PART TWO	19
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**II. MACROECONOMIC AND FINANCIAL MANAGEMENT OF THE VOLATILITY
AND UNCERTAINTY OF CONGO’S OIL RESOURCES 21**

Key messages	21
2.1 Recent developments and outlook for the oil sector: production and price	22
2.1.1 Highly volatile production and price	22
2.1.2 Favorable production outlook in a context of very low prices	23
2.2 Fiscal context in Congo	23
2.3 Toward better management of oil revenues	24
2.3.1 The NOPB should be the key budget tracking indicator	25
2.3.2 Fiscal tracking rules	26
2.3.3 Financial sustainability criteria.....	29
2.3.4 Level of savings required in “good years”	30
2.3.5 Fiscal institutions.....	32
2.4 Implications of current oil prices for fiscal management	33

BIBLIOGRAPHY 35

ANNEXES 37

LIST OF FIGURES

Figure 1.1: African Oil Exporting Countries – Annual Real GDP Growth, 2014.....	4
Figure 1.2: Annual Growth of the Production Sectors in Congo, 2005–2014	5
Figure 1.3: Annual Growth of the GDP Components in Congo, 2012–2014	6
Figure 1.4: Demand Components of GDP in Congo, as a percentage of GDP, 2012–2014	6
Figure 1.5: Inflation in 2014: World, Sub-Saharan Africa, CAEMC and Congo	7
Figure 1.6: Components of Inflation in Congo in 2014	7
Figure 1.7: US\$/CFAF Exchange Rate in 2014	8
Figure 1.8: BEAC Policy Rate (TIAO) in 2013 and 2014	8
Figure 1.9: Global Growth Projections, 2015–2017	10
Figure 1.10: Growth Projections for Sub-Saharan Africa, Nigeria, Angola and Congo, 2012–2017	10
Figure 1.11: Oil and Non-Oil Growth Projections, 2015–2017	11
Figure 1.12: Oil and Timber Price Projections, 2008–2017.....	11
Figure 1.13: Inflation of the Components of GDP in Congo (right axis shows exports and imports), 2011–2017	12
Figure 1.14: Congo – Exchange Rate (right axis shows the nominal exchange rate)	12
Figure 1.15: GDP Deflator and Terms of Trade, 2011–2017.....	12
Figure 1.16: Congolese Government revenues and deficit in 2015, as a ratio to GDP	13
Figure 1.17: Fiscal Surpluses and Payment of Arrears in Congo, 2003–2014.....	17
Figure 1.18: Congolese Government Expenditure, 2009–2016	18
Figure 2.1: Oil Production in Congo, 2005–2014	22
Figure 2.2: Crude Prices – WTI (West Texas Intermediate) and Brent, 2000–2012.....	22
Figure 2.3: Global Oil Price Scenarios, 2013–2020	23

Figure 2.4:	Congolese Government Expenditures, 2005–2014, as a ratio to GDP.....	24
Figure 2.5:	Congo’s NOPB, 2000–2014, as a percentage of GDP	26
Figure 2.6:	NOPB and the Overall Fiscal Balance in Congo, 2000–2014, as a percentage of GDP	26
Figure 2.7:	Potential Annual Savings based on NOPB rules in Congo, 2000–2024, in CFAF billion	26
Figure 2.8:	Oil Price Trends by Projection Method, 2001–2018.....	28
Figure 2.9:	NOPB, Financial Assets and Wealth, 2013–2034, as a percentage of NOGDP	30
Figure 2.10:	Appropriate Size of the Congolese Stabilization Fund, 2011–2015, in CFAF billion	30
Figure 2.11:	Congolese Equity Fund Principal in 2035, in CFAF billion.....	31
Figure 2.12:	Impact of the Zero Deficit Policy on the Congolese Economy in 2015 and 2016.....	34
Figure 2.13:	Potential Impact of Unrestrained Public Spending on the Congolese Economy in 2015.....	34

LIST OF BOXES

Box 1.1:	Entry into Operation of the Maloukou Industries.....	5
Box 1.2:	Strategic Policy of Extractive Industry Companies in Congo.....	11
Box 1.3:	Public Finance Reforms Under Way.....	17
Box 2.1:	Decline in the Price of Oil and the 2015 Budget.....	25
Box 2.2:	Examples of Price Smoothing in Other Countries.....	27

LIST OF TABLES

Table 1.1:	Key Congolese Macroeconomic and Poverty Indicators, 2012–2017	14
Table 2.1:	Congolese Oil Price Trends, 2001–2014.....	32
Table A.1:	Republic of Congo – Selected macroeconomic indicators, 2010–2017	37
Table A.2:	Republic of Congo – Real GDP growth rates, 2011–2017	39
Table A.3:	Republic of Congo – Sectoral contribution of real output, 2011–2017, percent of GDP.....	40
Table A.4:	Republic of Congo – Use of resources at current prices, 2010–2016, percent of GDP.....	41
Table A.5:	Republic of Congo – Central Government Operations, 2011–2017, percent of GDP	42
Table A.6:	Republic of Congo – Central Government Operations, 2011–2017, percent of non oil GDP	43
Table A.7:	Republic of Congo – Executed Budget, 2008–2014. Percent of total budget	44

ABBREVIATIONS AND ACRONYMS

BEAC	Bank of Central African States	PEFA	Public Expenditure and Financial Accountability
BRICS	Brazil-Russia-India-China-South Africa	PEMFAR	Public Expenditure Management and Financial Accountability Review
BTP	Construction and Public Works	PIH	Permanent Income Hypothesis
CCDB	Audit and Budget Discipline Office	PND	National Development Plan
CAEMC	Central African Economic and Monetary Community	PPP	Purchasing Power Parity
CFA	African Financial Community	PVC	Polyvinyl chloride
DRC	Democratic Republic of the Congo	RGCP	General Public Accounting Regulations
DSA	Debt Sustainability Analysis	SIDERE	Integrated Government Revenue and Expenditure System
EIU	Economist Intelligence Unit	SSA	Sub-Saharan Africa
GDP	Gross Domestic Product	TIAO	Auction Rate
IMF	International Monetary Fund	TOFE	Fiscal Reporting Table
INS	National Statistics Institute	US\$	U.S. dollar
MPIH	Modified Permanent Income Hypothesis	US\$/b	Dollars/Barrel
Mb	Millions of Barrels	WTI	West Texas Intermediate
NOGDP	Non-Oil GDP		
NOPB	Non-Oil Primary Balance		
OPPA	Advance Payment Order		

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FOREWORD

The office of the World Bank in the Republic of Congo is pleased to present the second edition of its publication entitled “Republic of Congo Economic Update,” which reviews the main recent economic developments. This is an annual publication and a very important aspect of the World Bank’s program in the Republic of Congo. It aims to stimulate a constructive dialogue on public policy with the country’s authorities, academics, the private sector and civil society.

This second edition covers the year 2014 and the first quarter of 2015 and presents the economic outlook for 2015–2017. Beyond the review of recent economic developments, the report highlights the main results of the World Bank’s analytical work in the Republic of Congo with the aim to promote the consistency of the country’s economic policies in the medium and long term.

This edition covers a variety of macroeconomic topics, from policies and economic indicators for the

real sector to public finance, the monetary position and the external sector. It shows that Congo’s economy grew strongly in 2014 despite the significant decline in the price of oil. The lower oil prices will have an even greater impact in 2015 as they bring down domestic demand. Moreover, this edition looks in particular at the impact of volatile oil prices on the country’s economy, emphasizing the most appropriate fiscal policies in this context.

While we recognize the efforts of the Congolese authorities in the management of oil revenues, we hope that this edition will provide a useful contribution to the debate on economic policies in support of the transformation of the Republic of Congo into an upper-middle-income country in the medium term.

Ahmadou Moustapha Ndiaye,
*World Bank Country Director
For the Republic of Congo*

EXECUTIVE SUMMARY

Strong real sector performance in 2014 after three years of weak growth

After three years of weak economic growth, Congo recorded strong growth in 2014. The Congolese economy grew 6.4 percent in 2014, a significant improvement over the annual average growth rate of 3.5 percent achieved between 2011 and 2013. This growth was driven by the recovery of oil production, which rose 3.1 percent in 2014 after a sharp three-year downturn (–8 percent on average between 2011 and 2013) and by continued public investment in infrastructure. Public infrastructure investment increased 10 percent on average over the past four years to around 25 percent of GDP (gross domestic product) in 2014.

Despite this improvement, growth remains below the level needed to achieve Congo’s development objectives. Between 2011 and 2014 economic growth was significantly below the projections in the 2012–2016 National Development Plan (PND). The average rate of growth of 4.2 percent achieved between 2011 and 2014 is below the target of 8.5 percent set in the 2012–2016 PND as a guideline for achieving Congo’s development objectives and moving it into the ranks of the upper-middle-income countries.

More worrisome, in 2014 key issues emerge that could be a drag on growth in the coming years, including: (i) lower oil prices; (ii) an incipient budget deficit; (iii) a worsening current account deficit and (iv) a decline in domestic demand. First,

since the second half of 2014, the price per barrel of oil has fallen by almost half and is expected to remain at record low prices for the coming three years. This decline in the price of oil could mean that oil revenues may fall by almost 40 percent in 2015.¹ Second, in 2014 Congo recorded a fiscal deficit of 5.6 percent—the first since 2003—and the decline in oil prices is expected to lead to a worsening of that deficit over the next three years. Third, the current account deficit is expected to deteriorate from 5 percent to 6 percent in 2014 and to 12 percent in 2015 and is not expected to improve significantly over the following two years. Finally, domestic demand is expected to decline substantially as a result of lower oil revenues and Operation on undocumented immigrants, under which almost 4 percent of the population (illegal residents from the Democratic Republic of the Congo (DRC) and other countries) was expelled from the country. This decline in domestic demand could slow Congo’s economic recovery in 2016 and 2017.

An economic slowdown expected in 2015

In 2015, the rate of growth of the Congolese economy is expected to slow significantly. The sharp decline in oil prices is expected to bring oil revenues down by over 40 percent, for a decline in total revenues of over 20 percent. Given the statements made

¹ This decline amounts to 60 percent if we assume, like the IMF, that oil revenues in 2014 were approximately CFAF 1,900 billion.

and actions already taken by the Government, public spending is expected to be cut by over 25 percent. This reduction in public spending is expected to exacerbate the softening of domestic demand resulting from lower oil sector revenues and to lead to a slower rate of growth of the non-oil economy, which should grow at a rate close to 2.8 percent, a decline of 5 percentage points from the average level over the past five years. If, as the authorities predict, oil production falls 4.0 percent in 2015, the result will be a GDP growth rate close to 1.3 percent in 2015.

Boosted by a strong recovery of the oil sector, the Congolese economy should rebound in 2016 and 2017. The price of oil is expected to improve slightly in 2016 and 2017 and production should increase even more strongly, by 8.5 percent, owing to the start-up of new wells in the Marine 12 and Moho Nord zones. The resulting increase in the incomes of households and in government revenues will stimulate the non-oil sectors, which should grow 3.5 percent during the period. The economy is expected to then achieve a rate of growth of approximately 3.5 percent during the period 2015–2017, lower than the rate of growth between 2011 and 2014. The result could be less progress with poverty reduction over the period. It is important to note that this recovery will not bring nominal GDP back up to its 2013 level through 2017.

This economic recovery will not enable Congo to resolve its cash flow problems, however. This solid rate of growth will not provide the Government with revenue levels comparable to those in 2013 while recurrent expenditures, such as the government wage bill, are expected to rise sharply to meet the Government's strategic commitments. Government revenues, which are projected at approximately CFAF 2,130 billion in 2017, should total just 68 percent of the Government's 2013 revenues, while current spending in 2017 is expected to total CFAF 1,220 billion, compared to CFAF 950 billion in 2013. Capital spending is expected to total CFAF 1,120 billion in 2017, as against CFAF 1,600 billion in 2013.

The Congolese Government would benefit from adopting and applying an aggressive fiscal rule

The strong dependence of the Congolese economic cycle on revenues from the oil sector shows its need to have a sound policy for managing these revenues.

The recent decline in oil prices has created a cash flow crisis within the space of six months. The Government is currently looking for solutions to this problem, but it is clear that no mechanisms for managing such abrupt changes in fiscal trends have been planned by the authorities. Given that the country has a stabilization fund and has accumulated surpluses over the past 10 years, an operational mechanism for the commitment of its resources in periods of need would have enabled it to avoid the problems related to the fiscal adjustment currently under way.

To achieve sound management of its oil resources, the Congolese Government would benefit from adopting a fiscal rule based on the non-oil primary balance (NOPB). This rule should include (i) smoothing using an 8-year moving average for the oil price to be used in the budget; and (ii) a current and capital expenditure growth rule aimed at achieving an NOPB/NOGDP (non-oil GDP) ratio exceeding a given value. A price rule would enable the authorities to each year identify the sustainable price for sound public finance management. This ratio suggests that an 8-year moving average with 6 historical years would be best suited to this target. The rule for the growth of expenditures should be based on a maximum spending increase compatible with the NOPB/NOGDP ratio and the budgeted oil price. This ratio should be calibrated once and for all with the aim of allowing the Government to accumulate sufficient savings to stabilize the economy and achieve intergenerational equity.

In Congo, this ratio should be calibrated at –30 percent or less in absolute terms. According to the data available on oil production and the buoyancy of the non-oil sectors, an anchor to an NOPB/NOGDP ratio of between –25 percent and –35 percent would enable the Government to accumulate

savings for precautionary and intergenerational equity purposes. With this kind of anchor and with the proposed price and expenditure rules, the Congolese Government could accumulate savings for precautionary (stabilization)² and equity reasons. Given the projected oil price level and assuming that oil production will end in 2034, the Government would be in a position to save the amounts needed to enable it, based on the permanent income hypothesis (HRP), to finance its current expenditures even after the end of oil production. This ratio should be adjusted downward regularly as oil production declines.

The Government would benefit from establishing transparent institutions and mechanisms to improve the management of its revenues. Rules for the accumulation of savings in the stabilization fund should be adopted and consistently applied. The funds currently available at the Bank of Central African States (BEAC) seem insufficient for the country's stabilization needs. A stringent and transparent mechanism for the transfer of these funds to the Public Treasury

in case of need should therefore be adopted. As well, a mechanism for the accumulation of savings in the equity fund (for future generations) should be adopted and strictly applied. An investment management policy for the fund should also be adopted. The key aspects to be taken into account in the management of these funds are the profitability of the investments and the associated risk level. If some of the funds are invested in Congo's economy, the Government should create an independent committee to assess the economic and social profitability of projects before their inclusion in the budget. In general, a medium-term expenditure framework is needed to manage such resources.

² Using a VaR-type technique, we can each year determine the lowest level of oil revenues for the following three years with a 95 percent confidence interval, the financing gap over those three years vis-à-vis the expenditure growth rule compatible with the NOPB/NOGDP ratio and the price smoothing rule.



PART ONE

THE CONGOLESE ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK



KEY MESSAGES

- *The Congolese economy posted strong growth of 6.4 percent in 2014 in a context of declining inflation owing to lower oil prices, the deterioration of domestic demand, and the depreciation of the CFA franc in the second half of the year.*
- *The declining oil prices resulted in a fiscal deficit^a in 2014, for the first time since 2003, measuring around 5.6 percent of GDP as compared to a surplus of 7.8 percent in 2013.*
- *The Congolese economy could have grown more strongly had it not been for Operation on undocumented immigrants, which significantly reduced domestic demand and caused an upheaval in commercial transactions between Congo and the DRC.*
- *Another year of weak economic growth of about 1.3 percent is expected in 2015. This situation is likely to result in a deterioration of some of the social indicators.*
- *The Government could cushion this slowdown by using its savings effectively for stabilization purposes in order to maintain an adequate level of current and capital expenditure.*

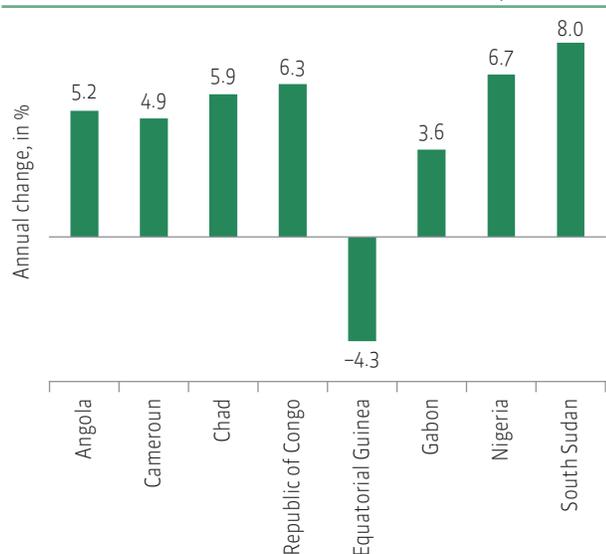
^a According to preliminary figures that have not as yet been confirmed, the 2014 fiscal deficit is expected to be even higher, at around 7 percent to 8 percent of GDP.

1.1 Recent economic developments

In 2014, the Republic of Congo's macroeconomic performance was solid, with a growth rate of 6.4 percent, a sizable fiscal deficit, low inflation, and a substantial current account deficit.

Congo posted strong growth of 6.4 percent in 2014, in large part owing to the resumption of production in the oil sector. Growth recovered, increasing from 3.4 percent in 2013 to 6.4 percent in 2014 despite a regional and global environment characterized by risks owing to the slowdown in the growth of the emerging markets, epidemics and other persistent forms of insecurity and the decline in oil prices in the second half of 2014. This robust growth was based essentially on strong oil production in 2014. In 2012 and 2013, the oil sector declined at an average rate of -10 percent owing to accident-related upheavals in offshore production and oil well maintenance works that took longer than anticipated. Following the completion of the planned maintenance work and the start-up of the new Marine 12 field by Eni³ in the fourth quarter of 2014, production rose by 3.1 percent in 2014.

FIGURE 1.1: African Oil Exporting Countries – Annual Real GDP Growth, 2014



Sources: Congolese authorities and World Economic Outlook, June 2015.

This rate of growth places Congo among the leading sub-Saharan African oil-exporting countries in 2014. With growth of 6.4 percent, Congo is ranked third, after South Sudan (8 percent) and Nigeria (6.7 percent) (see Figure 1.1). Apart from Equatorial Guinea, all of the oil countries averaged growth of around 5 percent. Given the scope of the decline in oil prices (from US\$111/b at end-June 2014 to US\$62/b at end-December 2014) and its negative impact on anticipated production in the exporting countries, a stronger decline in growth might have been expected in these countries. However, the spectacular slide in prices should not cause us to lose sight of the fact that on average this decline was just -7.6 percent in 2014, with the annual average price per barrel dropping from US\$104.2 in 2013 to US\$96.8 in 2014. In Congo, the strong performance of the non-oil sector and the sizable investments already made by oil companies prevented a stoppage or strategic slowdown in the established program of works for the entry into production of new fields. Moreover, given the World Bank's price forecasts for 2015 through 2017, the profitability of these projects should not really be threatened in the short and medium term, despite current prices.

1.1.1 A solid real sector macro-economic framework in 2014

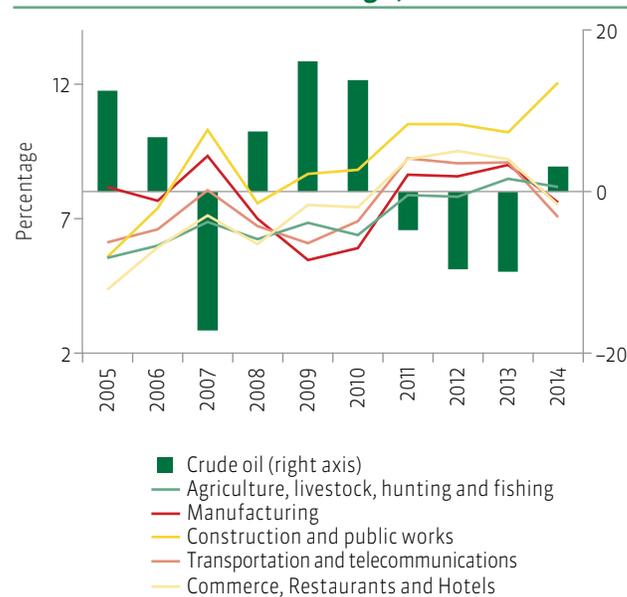
Economic growth in 2014, which was stronger than in the previous three years, could have contributed to the achievement of the objectives laid out in the 2012–2016 PND. Between 2012 and 2014, growth rates averaged 4.5 percent. This was above the average performance at the international level (2.4 percent) and at the level of the Central African Economic and Monetary Community (CAEMC) at 4.4 percent, but below the average for middle-income countries (5.4 percent) and sub-Saharan Africa (5.1 percent). However, while this performance could help to achieve

³ Eni S.p.A. is an Italian oil and gas company headquartered in Rome. It operates in 79 countries and is currently Italy's largest industrial enterprise.

the 8.5 percent per year target set in the 2012–2016 PND, a significant effort will need to be made, given the 3.8 percent and 3.4 percent recorded in 2012 and 2013.

With the oil sector in the midst of a turnaround, the non-oil sector continued to support growth in 2014, helping to reduce poverty. The economic growth recorded in Congo can be attributed first of all to the recovery of oil activities, primarily the upturn in oil production (3.1 percent in 2014 as against –10 percent in 2013; see Figure 1.2). This recovery is explained by the completion of the maintenance work in the oil fields and the entry into production of a new field operated by Eni. Growth of the non-oil sector remained almost stable at 7 percent. Agriculture and forestry grew 8.2 percent and 6.0 percent, respectively, accounting for the solid performance of the primary sector,⁴ which helped to reduce poverty in rural areas. The secondary sector continued to grow strongly at 7.6 percent, driven by the “electricity, gas and water” and “manufacturing” branches. Continued industrialization, with investments in energy and water, combined with the output of 4 of the 16 industries located in the Maloukou special economic zone (see Box 1.1) were vectors of growth. Finally, the tertiary sector grew 7.3 percent in 2014 as against 7.9 percent in 2013, with the “commerce, restaurants and hotels” and “transportation

FIGURE 1.2: Annual Growth of the Production Sectors in Congo, 2005–2014



Source: Congolese authorities.

and telecommunications” branches as the engines of growth. The solid performance of the non-oil sector certainly helped to bring down poverty from

⁴ This was aided by the actions taken by the Government and the private sector to improve and increase agricultural and forestry production (sugar cane, timber, farming villages, palm groves, etc.)

BOX 1.1: Entry into Operation of the Maloukou Industries

In application of the economic diversification approach put forward in the 2012–2016 PND, which is the implementation document for the President’s social program entitled the Future Path, the Government launched the creation of a commercial and industrial zone in Maloukou in August 2012. This is an integrative project, which in its first phase involves the construction of 16 factories, a cooling plant, and four warehouses for the distribution of the industrial output.

At an estimated cost of CFAF 290 billion in government financing, Maloukou is intended to attract foreign investment. This zone is specialized in the production of construction materials. An integral part of the Brazzaville special economic zone, its aim is to make the products needed in the construction and public works sector and to establish the industrial production of (i) tiles and metalwork; (ii) rotomolding of galvanized sheeting (500 metric tons per month) and PVC (polyvinyl chloride) tubes and pipes (1,000 metric tons per month); and (iii) ceramic cladding.

In 2014, the construction works were completed and 5 factories (metal tiles, sheeting, pipes, ceramic tiles, and bricks) entered into production. Factories for the manufacture of electric wiring and prefabricated concrete are expected to follow shortly. In the end, the Maloukou industrial zone will include factories for the manufacture of galvanized sheeting, bricks, ceramic tiles, PVC tubes and pipes, electrical cables, metal tiles, plastic tanks and other containers, sanitation equipment, mortar, cement beams and metal towers.

The 200,000 hectare area is projected to create 15,000 jobs by 2020. The impact on NOGDP will be about US\$700 million and, from a population standpoint, the special economic zone is expected to growing into city of some 30,000 inhabitants by 2025.



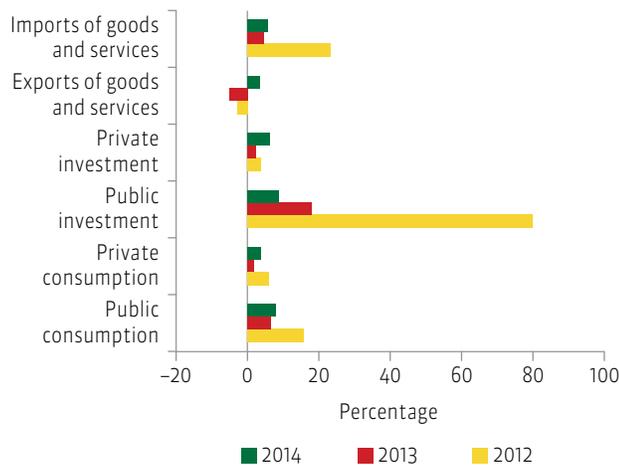
46.5 percent in 2011 to around 42.2 percent in 2014, as estimated by World Bank experts.

Demand continued to underpin Congo's solid economic performance in 2014. By cushioning the effects of the slowdown in gross investments, the buoyancy of domestic consumption (5.8 percent in 2014 as against 3.7 percent in 2013) was a catalyst for growth. Despite the decline in oil prices, public investment in basic infrastructure and the infrastructure needed for the 2015 All Africa Games continued. Moreover, at a rate of 7.0 percent in 2014, compared to 6.7 percent in the previous year, robust domestic demand supported GDP growth. The government policy to provide Congo with modern

infrastructure continued and the implementation of these works led to an upward adjustment in the Government's capital budget by 25.7 percent, from the CFAF 1,997.9 billion initially projected at end-2013 to CFAF 2,494.8 billion in the June 2014 supplementary budget. Moreover, with the continuation of the oil company investments (Marine 12 by Eni, Moho Nord by Total E&P Congo, Lianzi by Chevron), economic activity was supported by private sector consumption and investment, reflecting the substantial investments in the oil sector. In a context in which private investments rivaled public investments in gross fixed capital formation, the gross investment rate as a percentage of GDP rose sharply to around 42 percent in 2014 (see Figure 1.3).

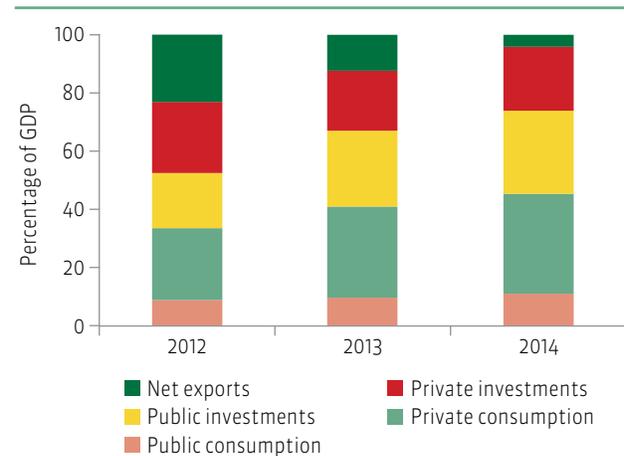
The share of net exports in GDP declined, from 13.8 percent in 2013 to 8.2 percent in 2014. In a context of a recovery of oil production and declining oil prices (see Figure 1.4), the volume of exports (4.1 percent) increased moderately compared to imports (6.6 percent). Slackening demand in China and in the euro zone (the main importing partners) narrowed the country's trade balance even further. The appreciation of the dollar vis-à-vis the euro resulted in a substantial rebalancing, boosting

FIGURE 1.3: Annual Growth of the GDP Components in Congo, 2012–2014



Source: Congolese authorities.

FIGURE 1.4: Demand Components of GDP in Congo, as a percentage of GDP, 2012–2014



Sources: World Bank and Congolese authorities.

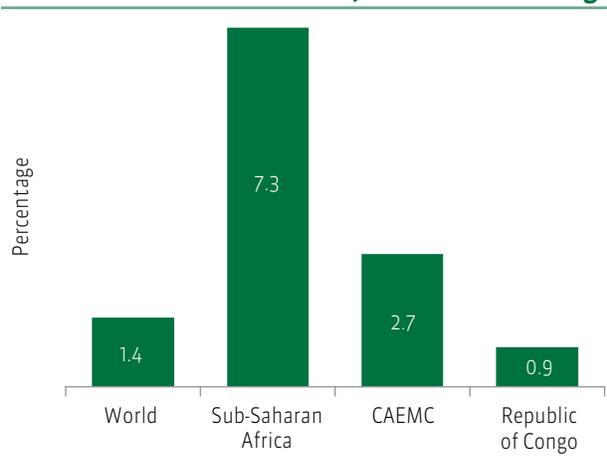


exports in value terms (oil sales take place in U.S. dollars) and compensating for the decline in global prices for the main export products (including crude oil and timber).

1.1.2 Low inflation in a context of uncertainty regarding the strength of the euro

The inflationary pressures observed before 2013 stabilized in 2014. On average, annual inflation stood at 3.0 percent in 2013, stabilizing at 3.2 percent in December of that year. In 2014, inflation declined sharply to 0.9 percent (see Figure 1.5), a level in line with the CAEMC community objectives (inflation

FIGURE 1.5: Inflation in 2014: World, Sub-Saharan Africa, CAEMC and Congo



Sources: IMF, INS.

below 3 percent). Data from the National Statistics Institute (INS) show that the main price increases were observed in the items “education,” “health,” “communications” and “housing, water, gas, electricity and other fuels,” while the main declines were observed in the items “food products and beverages,” “alcohol and tobacco,” “leisure and culture” and “transportation” (see Figure 1.6).

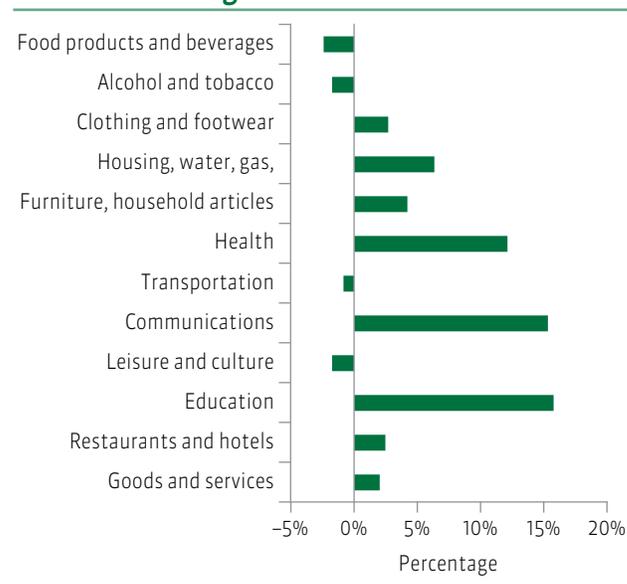
This decline in domestic prices is a reflection of some of the shocks to the economy during the year.

In 2014, Congo suffered significant supply shocks, including the expulsion of illegal DRC citizens and the decline in oil prices. This expulsion removed some 200,000 individuals, or 4.4 percent of the population, from Congo resulted in a significant decline in demand for goods and services, housing, food etc. At the same time, the decline in the prices of oil and other commodities led to a substantial decline in exports in the second half of the year.

Despite the deterioration in the net external position, monetary assets increased significantly.

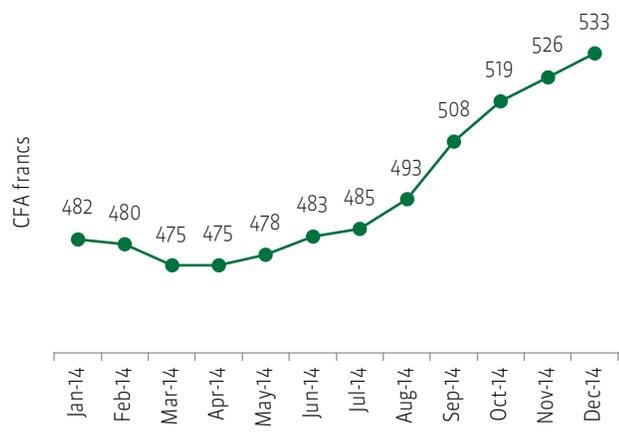
The monetary position was further consolidated owing to a sustained increase in credit to the economy of 32 percent per year between 2010 and 2014. Private

FIGURE 1.6: Components of Inflation in Congo in 2014



Source: INS.

FIGURE 1.7: US\$/CFA Exchange Rate in 2014



Source: World Bank.

sector lending grew sharply during this period, from 17 percent of NOGDP in 2010 to almost 32 percent of NOGDP in 2014. This resulted in an increase of almost 11.6 percent in monetary assets in 2014, despite the steady contraction of net foreign assets since 2011. The net external position deteriorated, as net foreign assets declined by over 16.6 percent in 2014 and are not expected to increase given weak oil prices and global demand. The depreciation of the CFA franc vis-à-vis the dollar in 2014 is the result of its peg to the euro, which was affected by the strong American monetary policy (see Figure 1.7).

To stimulate the economies of the CAEMC zone, the BEAC made adjustments to its main monetary policy instrument. The year 2013 was exceptional in terms of the BEAC’s monetary policy management. To support the monetary balances relating to the peg to the euro and inflation management, the BEAC adjusted its policy rate (the auction rate or TIAO) in line with the downward adjustments of the European Central Bank policy rate. In the face of the euro zone problems and the strength of the U.S. dollar, the BEAC adjusted the TIAO downward twice in 2013: (i) on July 22 from 4 percent to 3.5 percent; and (ii) on November 1 from 3.5 percent to 3.2 percent. It adjusted it again on July 7, 2014 from 3.25 percent to 2.95 percent (see Figure 1.8). The successive adjustments may not

FIGURE 1.8: BEAC Policy Rate (TIAO) in 2013 and 2014



Source: BEAC.

have produced the expected results. Although the BEAC hopes that a more flexible monetary policy will strengthen credit to the private sector and stimulate growth, the decline in the policy interest rate is not expected to have a significant impact on economic performance since the monetary policy transmission channels seem to be affected by challenges specific to the Congolese banking system.

1.1.3 Worsening current account deficit

Foreign trade resulted in a narrowing of the trade balance. During the past three years, exports gradually declined while imports consolidated. Private investments in the oil and construction and public works sectors were the engines of the growth of imports,



leading to a worsening of the current account deficit, to –6.2 percent of GDP as compared to –5.3 percent in 2013. As the income balance also trended downward, it is likely that the current account deficit will deteriorate further in the short and medium term owing primarily to low commodity prices.

1.1.4 *First fiscal deficit in over a decade*

Strong public spending in 2014 combined with a decline in oil revenues has resulted in a fiscal deficit.

In 2014, for the first time since 2003, Congo recorded a fiscal deficit of close to CFAF 681 billion, leading to a negative fiscal balance of 5.6 percent of GDP as compared to a surplus of 7.8 percent in 2013. Already reduced by the infrastructure investment needed for the 2015 All Africa Games and the continued implementation of the increase in wages in the civil service, the fiscal surplus was further undermined by declining revenues owing to lower oil prices. The size of the fiscal surpluses accumulated over the past decade should provide some latitude, both to continue the infrastructure works and to maintain the supply of good-quality social services.

However, public revenues declined in 2014 owing to the combined effect of lower oil prices and weak external demand. After growing 12 percent on average annually between 2010 and 2013, revenues fell 8.3 percent in 2014 as a result of the decline in oil revenues, which remain the main source of public revenues in Congo (70 percent of the total in 2014 as against an average of 77 percent between 2010 and 2013). The impact of the decline in oil revenues (11.6 percent) in the wake of lower oil prices was offset by the continued rise in tax revenues (7.1 percent).

Moreover, Congo's borrowing has continued to rise, as the country's infrastructure development program has been financed in part by external loans. To continue implementation of the third pillar of the 2012–2016 PND, which focuses on infrastructure development, significant use has been made of strategic agreements with China. The financing of the major highway between Pointe-Noire and Brazzaville is dependent on these strategic partnership agreements

in the amount of about CFAF 500 billion. This has resulted in an increase in the debt ratio, which has almost doubled from 20 percent of GDP in 2010, when the completion point of the HIPC initiative was reached, to 36.4 percent in 2014. The negotiation of loans at concessional rates under these agreements has ensured that Congo's debt levels remain sustainable, according to the debt sustainability analysis (DSA) prepared jointly by the International Monetary Fund (IMF) and the World Bank in 2014. The analyses done in the context of the 2015 DSA show that the risk of debt levels beginning to spiral is currently moderate, as the Government can finance its fiscal deficit from accumulated reserves. The development of a realistic short- and medium-term borrowing strategy would be a good opportunity to strengthen operational instruments.

1.2 Congo's economic outlook for 2015–2017

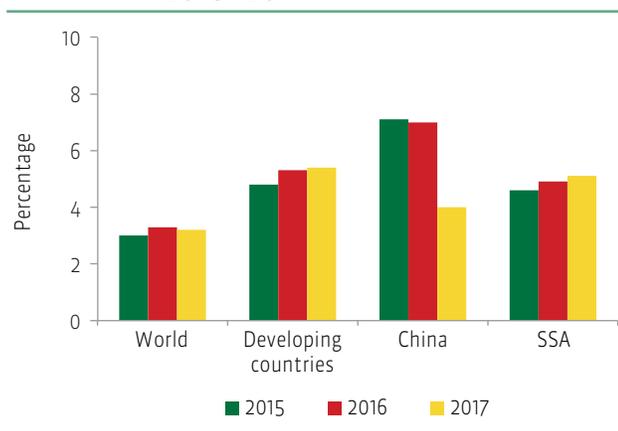
Congo's macroeconomic outlook for 2015–2017 is mixed in a fragile environment.

The global economy is expected to grow 3.2 percent on average during the period 2015–2017 as against 2.5 percent in the period 2012–2014. The slowdown in China and other emerging markets that are commodity importers will continue to slow demand for commodities and keep their prices depressed. Thanks in part to these low prices, the developed countries will maintain significant growth levels and the commodity-importing countries could boost their economies, while the exporting emerging and developing countries will suffer the impact. In general, sub-Saharan Africa could post real GDP growth of 4.6 percent in 2015, 4.9 percent in 2016 and 5.1 percent in 2017 (see Figures 1.9 and 1.10).

1.2.1 *Moderate real sector growth expected*

In 2015, the rate of growth of the Congolese economy is expected to slow significantly. In 2015, the Congolese economy is expected to grow at 1.3 percent. Oil production is expected to decline, primarily as no new wells will be brought on stream

FIGURE 1.9: Global Growth Projections, 2015–2017

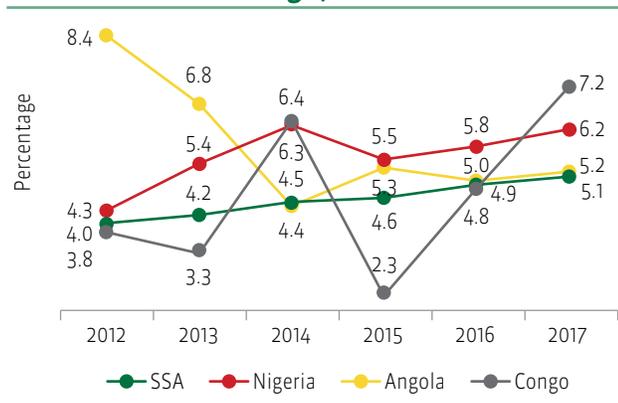


Source: World Economic Outlook, June 2015.

by the oil companies. The non-oil sectors will grow more slowly than in recent years for three main reasons: (i) the decline in public spending on goods and services and on public investment; (ii) the slowdown in private investment; (iii) the negative impact of unpaid invoices on small and medium-sized companies in the construction and public works sector; and (iv) labor shortage in some segments of small businesses following.

Specifically, lower oil prices will have a significant impact on GDP growth in 2015 and on other key macroeconomic variables. In addition, to reducing

FIGURE 1.10: Growth Projections for Sub-Saharan Africa, Nigeria, Angola and Congo, 2012–2017



Source: World Economic Outlook, January 2015.

government revenues, lower prices will lower the profitability of oil-producing and exporting companies, resulting in a decline in the incomes of workers in the sector. Weak domestic demand for goods and services will also follow. The indirect effect of lower oil prices will be weaker demand in the non-oil sector. It is estimated that the non-oil sector may grow only at 2.8 percent, a significant deceleration compared with the 8 percent achieved in recent years.

In contrast, annual economic growth may be stronger in 2016 and 2017. Growth could rebound to 3.5 percent in 2016 and 5.7 percent in 2017 (see Table 1.1). It will be buoyed by the recovery in oil production that will result from ongoing oil investments (Box 1.2), which should grow on average by 8 percent in 2016–2017.⁵ Moreover, the gradual upturn in oil prices and the rebalancing of the global economy that will follow is expected to stimulate the non-oil sectors, which will continue to develop.

Congo is expected to lose at least 1 percentage point of growth on average annually for a growth rate of 3.5 percent in 2015–2017, as against 4.5 percent between 2012 and 2014. The reasons are lower domestic demand as a result of the reduction in government spending, the decline in private investment, and the shrinking of the domestic market. The recovery of oil production in 2014 and continued oil investments by Total E&P Congo and Chevron (at the Moho Nord and Lianzi sites) will offset this decline.

Growth in non-oil sectors is expected to be led primarily by the development of the transportation sector (5.6 percent in 2015–2017). This sector will benefit directly from the new built infrastructure, the non-food industries (5.2 percent of growth during the period) supported by the Government’s industrial policy at Maloukou (where at least five companies out of the 15 or so industries are already in operation), and agricultural activities (5.0 percent growth on average

⁵ The World Bank projects a slower rate of growth of oil production than the Government, as lower oil prices may lead some companies to reduce or postpone production.

BOX 1.2: Strategic Policy of Extractive Industry Companies in Congo

No cancellations of investments in the oil sector have been officially announced by oil-producing companies in Congo (Eni, Chevron, Total, etc.). Recent information received from these companies shows that they are delaying their investment commitments. If the price of oil remains low in the medium term, some may reduce their involvement.²

The drop in oil prices and the decline in the prices of major minerals, such as iron, that followed will have a greater negative impact on mineral exploration. Low mineral prices reduce their attractiveness, which makes companies less inclined to make the investments for producing or operating new sites. Moreover, lower oil prices reduce the Government's fiscal space, preventing it from continuing the infrastructure investment needed for the operation of certain mining sites. For example, the start-up difficulties at the Mayoko site are attributable to the failure of the Government and the mining company to come to an agreement on the construction of a railroad connecting the site to the mineral port. The Government's fiscal difficulties will not help.

Source: World Bank

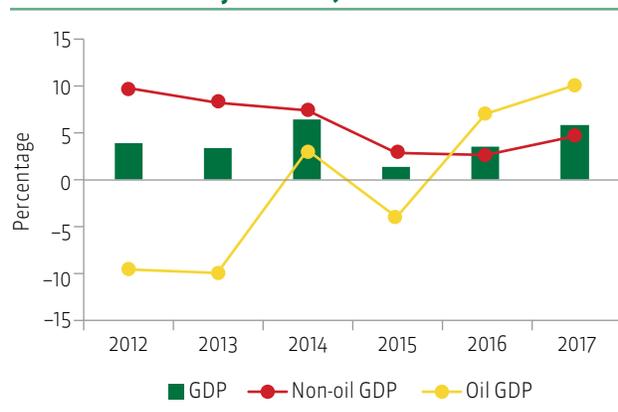
^a For example, Schlumberger, a major oil exploration company present in the Gulf of Guinea, recently announced a reduction in its staff around the world. According to the Energy Information Administration, onshore oil production in the United States should decline by around 15 percent by 2016.

annually—new farming villages, sugarcane, maize, palm oil, etc.) (see Figure 1.11).

The impact of lower prices for commodities on non-oil sectors will be reflected in weak overall demand. Overall demand may decelerate, with a rate of growth of 3.1 percent between 2015 and 2017 as against 6.3 percent between 2012 and 2014. The enthusiasm for public investments could slow, with the focus placed on priority projects, and consumption is expected to be controlled in the context of a plan to reduce government spending begun in October 2014 with the adoption of the 2014 supplementary budget (reduction of current expenditures by 24 percent).

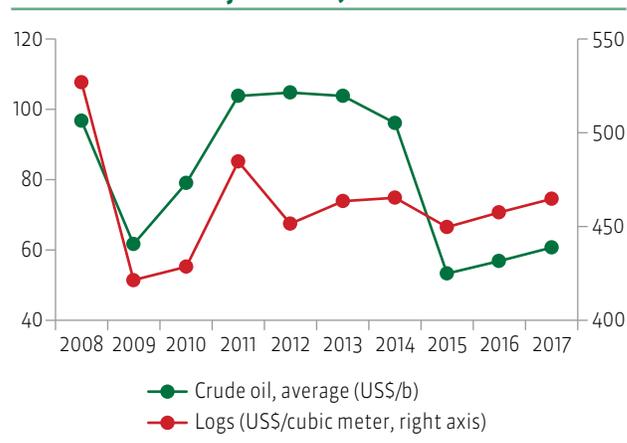
Gross investments will increase by less than 5 percent during the period 2015–2017, as against an average of 15 percent between 2012 and 2014. Public consumption should stand at 4 percent between 2015 and 2017, compared to 11 percent during the 2012–2014 period. Exports will benefit from the recovery of oil production and are expected to grow more slowly, by 6 percent between 2015 and 2017, as compared to the –2 percent between 2012 and 2014. Import volumes in the oil sector should tend to soften, while remaining very high owing to the start of production at the new Moho Nord and Lianzi fields in 2017 (see Figure 1.12). As a result, the appreciation of the dollar vis-à-vis the

FIGURE 1.11: Oil and Non-Oil Growth Projections, 2015–2017



Sources: Congolese authorities and World Bank.

FIGURE 1.12: Oil and Timber Price Projections, 2008–2017



Source: World Economic Outlook, January 2015.

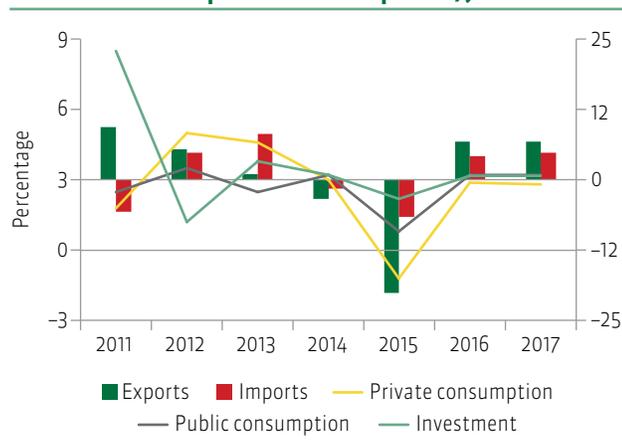
euro (and thus vis-à-vis the CFA franc), combined with the expected increase in commodity prices, should lead to an improvement in the external accounts as net exports grow more than 10 percent in comparison to the decline in the years 2012–2014.

1.2.2 Low inflation outlook

Lower oil prices will lead to a decline in inflation and in the GDP deflator. Lower oil prices should lead to a decline in household incomes and government revenues, which will lead to lower domestic demand and, all other things being equal, lower prices. A downturn in the prices of imports should also follow, owing to lower transportation costs. The same will be true for investment prices. With the decline in its revenues, it is highly likely that the Government will reduce its share of investments, which will lead to a decline in inflation in the sector and in the GDP deflator (see Figure 1.13).

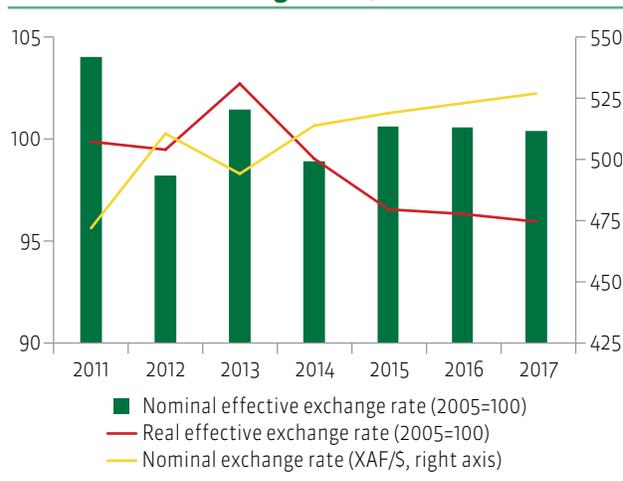
The terms of trade will deteriorate in the coming years. The terms of trade are expected to decline by almost 15 percent in 2015 and to recover modestly to 3 percent and 2 percent in 2016 and 2017 (see Figures 1.14 and 1.15). As Congolese exports are dominated by oil, and imports are largely made up of transportation and construction materials, the terms of trade tend to follow

FIGURE 1.13: Inflation of the Components of GDP in Congo (right axis shows exports and imports), 2011–2017



Sources: Congolese authorities and World Bank.

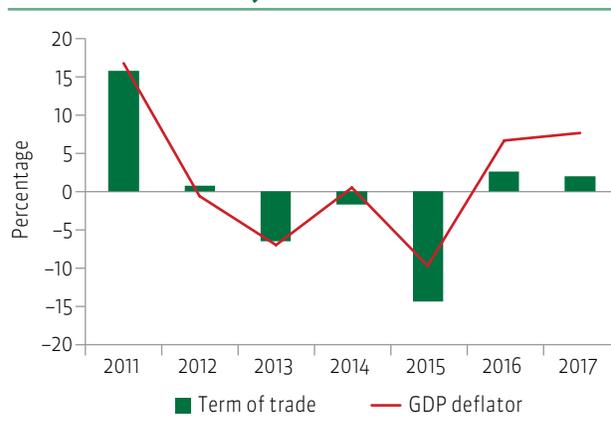
FIGURE 1.14: Congo – Exchange Rate (right axis shows the nominal exchange rate)



Sources: World Bank staff.

trends for oil prices and international manufacturing. Lower oil prices, while reducing the prices of Congolese exports, also reduce the price of imports through the cost of inputs for manufacturing and transportation. The latter will help to mitigate the significant impact of lower oil prices on the terms of trade. The terms of trade and GDP deflator have moved in tandem in recent years, and the same will be true over the next three years. However, these two indicators will diverge in the future as the net share of exports in GDP decreases.

FIGURE 1.15: GDP Deflator and Terms of Trade, 2011–2017



Source: Congolese authorities.

The substantial decline in oil prices will bring down the real effective exchange rate. As the CFA franc is linked to the euro by a fixed exchange rate and a significant share of Congo's foreign trade (approximately 45 percent) takes place with the euro zone, the nominal exchange rate will not change significantly, in contrast to the real effective exchange rate. The price differential with the euro zone and Congo's other economic partners (euro zone, United States, China, etc.) will play a role. Domestic prices will either decline or grow more slowly (see Figure 1.14). Overall, the real effective exchange rate index will fall from 102.7 in 2013 to 95.9 in 2017.

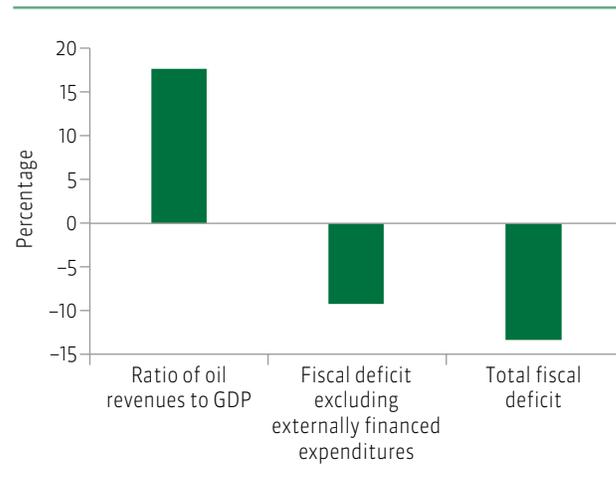
1.2.3 Significant fiscal and current account deficits expected

In 2015, the (expected) very low price levels will result in a spectacular decline in government revenues.

The decline in prices for oil and timber will negatively affect public finances by sharply reducing government revenues (see Figure 1.16). Oil revenues are expected to drop 35 percent. This decline will be particularly felt in revenues from the sale of oil shipments, the main component of oil revenues. Based on production-sharing agreements, which vary depending on the oil field, the Government on average receives proportionally higher revenues from shipments when prices are high. Moreover, with the improvement in tax collection capacity, the introduction of the new property tax and the anticipated growth in the non-oil sector in 2015, non-oil revenues should rise about 10 percent. Overall, total government revenues will decline by about 21 percent.

If the Government maintains spending as projected in the new 2015 budget, the fiscal deficit will be sizable. In the 2015 budget, the Government proposes to maintain the increase in civil service wages, the major infrastructure works already under way, and the expenditures for the All Africa Games, to be held in Brazzaville in September 2015. With these commitments, government spending will decline by around 15 percent. With a decline in revenues of 20 percent to 25 percent, the

FIGURE 1.16: Congolese Government revenues and deficit in 2015, as a ratio to GDP



Sources: Congolese authorities and World Bank.

fiscal deficit will increase from 5.6 percent in 2014 to 13.5 percent in 2015.

The situation should improve slightly in 2016 and 2017 as oil prices and oil production recover.

The fiscal deficit could improve to -11.1 percent in 2016 and -6.2 percent in 2017 owing to increased oil revenues and the gradual reduction in certain government spending commitments.

Depending on the Government's ability to manage its stabilization fund operations, cash flow pressures are likely to occur. The substantial fiscal deficit in 2015 should be financed by previously accumulated reserves (between 2010 and 2014, Congo's reserves represented on average 46 percent of government deposits at the BEAC). However, this depends on the Government, which will need to draw down its reserves by about CFAF 1,000 billion or decrease its expenditures. Everything appears to indicate at present that the Government will reduce capital spending to limit the amount to be withdrawn from the reserves. It seems also likely to be tempted by foreign borrowing from multilateral lenders. It is important that the Government conduct a genuine cost-benefit analysis before making its decision. In general, and this is also true for Congo, the interest rate on borrowing is higher than the lending rate.

Finally, Congo will record a sizable current account deficit during the next three years. In 2015, this deficit is expected to reach 12 percent, as against 6.4 percent in 2014. This is explained by the deterioration in the terms of trade since July 2014. This deficit should gradually decline to 8.9 percent in 2016 and 6.9 percent in 2017 as the terms of trade and oil production recover.

1.2.4 The Congolese economy remains vulnerable to various internal and external risks

Internal risks include the threat to Congolese growth of the slow pace of reform and the risk of slippages during the 2016 presidential elections. Reforms to improve the business climate initiated in 2011 are

progressing very slowly and may not produce the expected results if the Government does not redouble its efforts to accelerate their implementation. The delay in the implementation of financial reforms could prevent the country from benefiting from the efficiency of its public spending in reducing its unemployment, poverty, and inequality. The same is true for the governance reforms and capacity building, such as the modernization and automation of the Government's revenue and expenditure procedures. Finally, the 2016 presidential elections could lead to slippages, tensions and even unrest, given the current discussion on their preparations and their end-of-cycle nature.

External risks include a deeper and more sustainable decline in the prices for Congo's main export products, such as oil and timber, which could undermine the development process currently

TABLE 1.1: Key Congolese Macroeconomic and Poverty Indicators, 2012–2017

	2012	2013	2014e	2015f	2016f	2017f
GDP at market prices	3.8	3.4	6.4	1.3	3.5	5.6
Private consumption	6.9	8.7	4.4	2.5	4.6	4.6
Public consumption	17.4	10.4	5.0	-2.5	2.0	4.9
Gross fixed capital formation	7.3	3.2	10.3	-4.1	2.3	1.3
Change in inventories (% contrib.)	0.4	0.3	0.3	0.3	0.4	0.4
Exports of goods and services	-3.4	-5.7	4.1	-4.5	7.0	10.0
Imports of goods and services	26.3	5.2	6.6	-6.0	4.0	3.0
GDP at factor cost	3.6	3.4	6.3	1.3	3.6	5.6
Agriculture	7.8	8.5	8.2	5.0	4.0	4.0
Oil	-9.6	-10.2	3.1	-4.0	7.0	10.0
Manufacturing	8.7	8.9	7.6	4.3	3.4	5.1
Services	10.1	8.0	7.3	1.8	2.4	4.3
Inflation (household consumption deflator)	4.4	-2.1	-4.2	-25.7	3.4	4.9
Inflation (consumer price index)	3.9	6.0	0.9	0.9	1.7	2.5
Current account balance (% of GDP)	-1.2	-5.2	-6.4	-16.2	-14.1	-10.7
Fiscal surplus/deficit (% of GDP)	6.5	5.8	-6.1	-12.3	-8.9	-7.2
Poverty rate (US\$1.25 per day PPP)	46.5			42.2		38.5
Poverty rate (US\$2.50 per day, PPP)	32.8	32.5	31.9	30.6	29.3	28.6
Poverty rate (US\$5.00 per day, PPP)	0.38			0.38		

Sources: Congolese authorities and the World Bank.

underway. The volatility of commodity and oil prices is also a risk that could affect the fiscal indicators between 2015 and 2017. Although the share of oil revenues in total public revenues has declined over the past three years, it still represented three-quarters of revenues in 2013. Moreover, a price below US\$40/b could lead some oil companies to reduce or even stop production, which would further decrease government revenues and would threaten the jobs of a portion of their personnel. The same analysis applies to the forestry sector if log prices fall below the profitability threshold for companies.

1.3 Major economic policy issues

1.3.1 Weak fiscal planning that leads to repeated budget revisions

In June 2015, the Government prepared a revised budget to account for the decline in oil prices. In its 2015 budget, which was adopted in December 2014, the projected oil price was US\$70/b. Today experts are expecting a price of around US\$53/b for 2015, or a 32 percent decline. Since oil represents three-quarters of government revenues, it follows that the revenues projected in the 2015 budget are expected to decline by more than 25 percent. A supplementary budget was therefore necessary, the third since 2012. The Government in fact made revisions to its adopted budgets in 2012 and 2014. The 2012 revision was justified by the need to deal with the Mpila⁶ disaster and the 2014 revision aimed to record the additional spending related to the September 2015 All Africa Games.

The budget revisions required in 2014 and 2015 reflect weaknesses in the fiscal planning process. While the 2012 revision followed a disaster, this was not the case for the 2014 and 2015 revisions. When the 2014 budget was adopted, the expenditures needed to organize the All Africa Games could have been known; similarly, the Government could have been more realistic in its projections of oil prices. The budget sent to Parliament in November was prepared with an even higher price (US\$95/b) when in fact



prices were already falling and most experts projected a price of around US\$50/b for 2015.

These budget revisions negatively impact the quality of budget execution and generally lead to the use of exceptional procedures to execute the budget. The 2012 supplementary budget underscored the fact that the Government's revenue and expenditure system is ill-equipped to manage revised budgets, as shown by the poor execution rates (83.9 percent for revenues and 86.7 percent for expenditures). The 2014 revision was even more difficult to execute than the 2012 revision (68.1 percent for revenues and 74.3 percent for expenditures). These supplementary budgets are often adopted after July and, given that the General Directorate of the Budget finalizes budgetary commitments at end-October, there is little time for appropriations managers to initiate and obtain approval for most new projects (or even projects blocked owing to a lack of funds) before end-September. In 2014, the situation was very problematic, with a supplementary budget enacted in October. Budget execution after a supplementary budget involves recourse to an exceptional procedure (the advance payment order or OPPA). The Government had adopted a regulation to regularize the use of OPPAs, i.e., Decree 2009–230 of July 30, 2009, Articles 59–63,

⁶ Brazzaville neighborhood where an accidental explosion in a heavy weapons munitions depot occurred on March 4, 2012.

but the recent European Union Public Expenditure and Financial Accountability (PEFA) Report (2014) noted that it was not being applied.

1.3.2 Operation on undocumented immigrants has led to lower economic growth

The expulsion of almost 200,000 undocumented individuals has led to labor and skills shortages in some sectors of the Congolese economy. In April 2014, following incidents attributed in the media to illegal immigrants from the DRC, the Government launched an operation for the forced repatriation of these undocumented individuals, some of whom had lived in Congo for decades. This operation, which is still under way, has already affected more than 200,000 individuals, leading to labor shortages in sectors such as construction, retail and miscellaneous commercial services (joiners, hairdressers, drivers, taxi drivers, scrap merchants, carpenters, etc.) and a slowdown in some industries, such as construction.

This operation has also affected domestic demand, leading to a significant decline in the growth of the non-oil sector. The expulsion of 200,000 residents was equivalent to a 4.5 percent drop in the population. Even though this population was poor, and thus consumed less than the average, it is estimated that domestic demand declined at least 2.5 percent. This contributed to a decline in the growth of the non-oil sector of 8.2 percent in 2013 and 7.3 percent in 2014.

This operation has had a negative impact on trade integration. It has given greater weight to groups in the DRC fighting against future projects, such as the construction of a road-rail bridge over the river north of Brazzaville and Kinshasa, and has paralyzed trade relations between the two countries. Trade between the ports of Brazzaville and Kinshasa has been halted. As a result, the port of Brazzaville recorded a disastrous year in terms of its revenues, to the point that the Government will have to subsidize it substantially. The profitability of the Pointe-Noire-Brazzaville highway and the port of Pointe-Noire could also be affected. This

operation could thus jeopardize the stated intention of the Government to make the port of Pointe-Noire the major port in the sub region.

The Government should take account of the impact of its decisions on its medium- and long-term economic outlook and on its strategic objectives. The 2012–2016 PND clearly opted for economic diversification based on increased openness to the international markets, at both the sub regional and regional levels. Becoming a hub for interregional trade is thus a strategic objective for Congo and facilitating the free circulation of goods and persons should be a priority for the Government. Policies to combat clandestine emigration should take this account.

1.3.3 Fiscal surpluses vs the apparent incapacity of the Treasury to pay its invoices on time

Congo has been recording fiscal surpluses for more than a decade, and yet the Public Treasury seems to be incapable of paying its invoices on time. Data in reports of the CCDB (Audit and Budget Discipline Office) and the TOFEs (fiscal reporting tables) show that Congo recorded fiscal surpluses from 2003 to 2013 and accumulated arrears between 2004 and 2014 (see Figure 1.17). Private sector arrears create constraints for productivity and the survival of local small and medium-sized enterprises and industries, and some construction and public works companies have been forced to close as a result. An audit of Public Treasury arrears would appear to be in order.

The payments arrears vary in nature, which complicates their understanding. Some may result from normal budget management, involving payments in a period that do not correspond exactly to commitments during the same period. Others involve amounts committed during a period for which the completion time and normal validation process may take months. In a context of budget surpluses, it can therefore happen that, for management reasons, payments will exceed commitments in a given period. The difficulties in the public procurement and

disbursement process explain these problems. The reforms under way or planned in the area of public finances (see Box 1.3) should begin to address this issue.

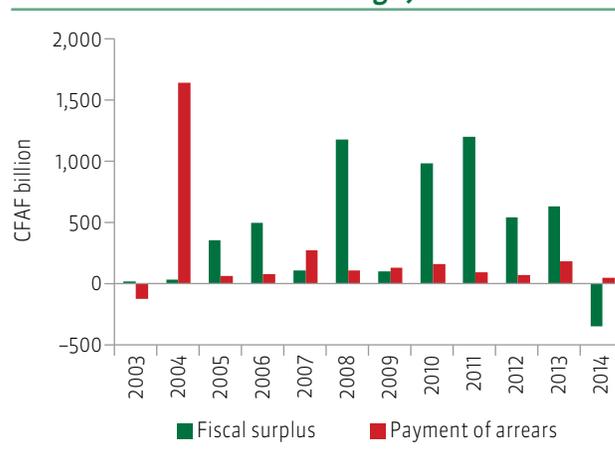
1.3.4 Gradual increase in wages in a context of reduced revenues is a source of cash flow problems

Rising wages have seriously affected public finances.

Driven by wages and goods and services spending, public recurrent spending increased 7 percent in 2014, as against 2.2 percent in 2013. At end-2013, the Government undertook to double the general civil service salary scale within four years. Since 2014 and through to 2017, the basic salary scale is to increase 25 percent each year. This policy has had a significant impact on the Government's financial position. While in 2013, the wage bill increased 10.6 percent (with the adjustment of the salaries of doctors), it increased 16.9 percent in 2014 (see Figure 1.18). The current decline in oil prices jeopardizes the sustainability of this policy, although the Government has stated on a number of occasions that it intends to abide by the commitments undertaken in the context of labor-management negotiations.

This policy could, however, potentially improve the social indicators. The almost general increase in

FIGURE 1.17: Fiscal Surpluses and Payment of Arrears in Congo, 2003–2014



Source: CCDB reports and TOFEs, 2003–2014.

wages in the civil service could produce social results by improving the standard of living of the population and access to high-quality social services. Wages have a significant distributional effect, particularly in a society in which most workers in the formal sector are government employees and where social connections constitute an important factor in economic life. According to the last urban employment survey (2012), the dependency ratio is higher among civil servants, at 317.4 inactive persons to 100 heads of household, than in

BOX 1.3: Public Finance Reforms Under Way

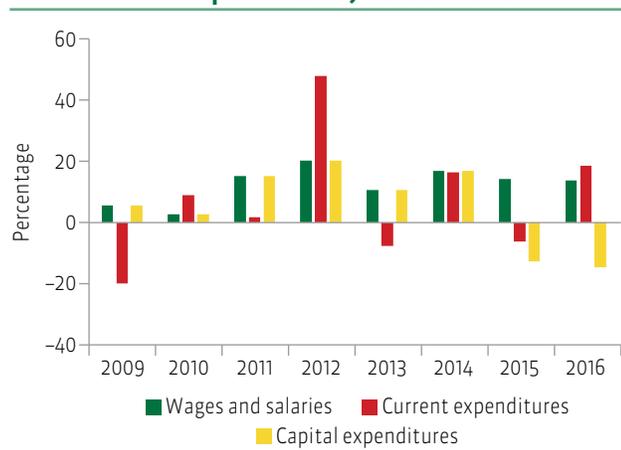
Congo is currently preparing and implementing reforms that should result in its compliance with all of the CAEMC 2011 directives on public finances by 2020. The Ministry of Economy, Finance, Planning, the Public Portfolio and Integration set up two entities in 2012 and 2014 to guide these complex reforms: a Steering Committee for the Integrated Government Revenue and Expenditure System (SIDERE) and a Steering Committee for the Government's program budgets and appropriations.

The first committee aims to improve the program budget process. The reform of revenue procedures was launched to supplement the current expenditure procedures (SIDERE), which do not yet produce all the expected accounting documentation and do not include all cash flow operations and all services of the revenue agencies (tax, customs, etc.).

The second is responsible for aligning the general public accounting regulations (RGCP), the government chart of accounts, the budget nomenclature and the TOFE with the principles set out in the CAEMC's 2011 Code for Transparency and Good Governance in the Management of Public Finances. To date, of all the implementing regulations for the 2011 CAEMC directives to be transposed into national law, only the organic law on the financial regime of the Government has been so transposed, in September 2011—although some information and provisions remain to be improved. The provisional RGCP documents and budget nomenclature are being reviewed by expert technical and financial partners before final adoption. The transposition of the government chart of accounts and the TOFE is still to be completed.

However, the significant progress recorded by Congo since 2013 in improving the *Trésorerie centrale des dépôts* (Treasury banking agency) should be noted.

FIGURE 1.18: Congolese Government Expenditure, 2009–2016



Sources: Final Budget Accounting Laws (*lois de règlement*) and TOFEs, 2009–2014.

other groups (private sector, informal private sector, unemployed or inactive), which in urban areas average 274.7 inactive persons to 100 heads of household.

1.3.5 Continued deterioration in the quality of government financial data

The quality of fiscal data in Congo has tended to deteriorate. The main table of data on public finances is prepared off the books (PEFA, 2014, and World Bank, 2015). As the Ministry of Economy, Finance, Planning, the Public Portfolio and Integration no longer has a website, public finance data are no longer published with the frequency requirements set out in the financial management standards. As a result, very significant revisions are included in the various versions of the public statistics. This may be due in part to the fact that the Public Treasury carries out a number of its

operations without producing the required accounting documents and in part to the increasingly common (rarely regularized) exceptional procedures, which are almost becoming the rule rather than the exception.

These data quality issues raise the issue of the reliability of the TOFE and other government financial data. The adjustments made to some statistics are occasionally incomprehensible. For example, in December 2014, oil revenues declared for 2014 in the TOFE totaled CFAF 2,001 billion, including CFAF 1,926 billion from the sale of shipments. In April 2014, the new TOFE for the year 2014 indicated a substantial decline in oil revenues, with a total of CFAF 1,487 billion, including CFAF 1,377 billion from the sale of shipments. This is a reduction of more than 25 percent, representing over CFAF 500 billion in revenues. Any hypothesis of a decline in oil revenues in 2014 should take account of macroeconomic developments in the sector, i.e. (i) a 3.1 percent increase in production; (ii) a 6 percent decline in annual prices per barrel of oil in dollars; (iii) the appreciation of the CFA franc vis-à-vis the dollar; and (iv) the stability of the oil contracts in effect. Such a situation, combined with the fact that the Government reported budget surpluses from 2011 to 2013 while accumulating domestic payments arrears, raises questions regarding the integrity of the Government's financial data.

The Government should take appropriate measures to ensure the quality of its budget planning process and the reliability and appropriate frequency of publication of its fiscal data. To this end, it could follow the example of some of its peers in the sub region, which regularly publish high-quality fiscal data.



PART TWO

MACROECONOMIC AND FINANCIAL MANAGEMENT OF THE VOLATILITY AND UNCERTAINTY OF CONGO'S OIL RESOURCES



KEY MESSAGES

- *Over the coming three years, Congo can expect a sharp increase in its oil production in a context of record low oil prices.*
- *With public finances characterized by the absence of a general fiscal rule for the management of public revenues and expenditures, a zero deficit fiscal policy in 2015 would be procyclical and likely to amplify the harmful effects of the decline in oil prices.*
- *The Congolese Government would benefit from adopting a fiscal rule based on the non-oil fiscal balance and including smoothing by means of the 8-year moving average for the price of oil to be budgeted and a rule for adequate growth of public spending.*
- *Congo should implement this rule so as to accumulate sufficient reserves to play both a precautionary and an intergenerational equity role. Anchoring to an NOPB/NOGDP ratio of -30 percent seems the most appropriate.*
- *The introduction of appropriate institutional mechanisms seems necessary to ensure transparency, efficiency, and the strict implementation of the fiscal rules adopted.*

2.1 Recent developments and outlook for the oil sector: production and price⁷

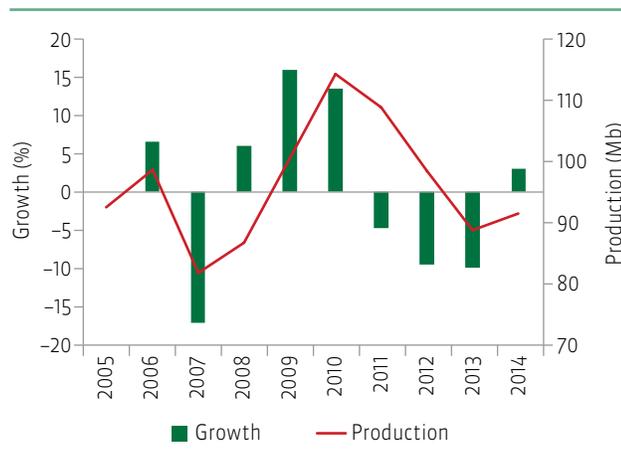
2.1.1 Highly volatile production and price

Oil production has been volatile over the past 10 years

Oil production in Congo has been very volatile over the past 10 years. It fell from around 93 million barrels (Mb) in 2005 to 91 Mb in 2014, with intermittent peaks and troughs. Production topped out at 114 Mb in 2010 and reached its lowest level at 82 Mb in 2007 (see Figure 2.1).

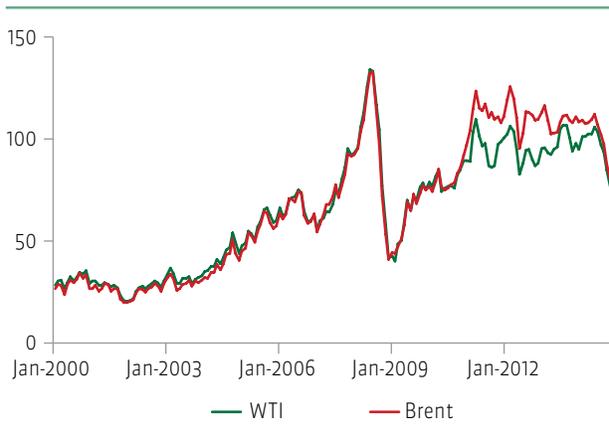
The failure to control the machinery of production and the randomness of discoveries explain a large part of this volatility. The low in 2007 resulted from a fire on the Nkossa offshore platform, an accident that led to the cessation of production at the site. The high in 2010 is explained by the gradual resumption of production on this platform. Subsequently, maintenance activities on other platforms (Congo Rép’s Émeraude, Total E&P Congo’s Nkossa and Moho Bilondo, Eni’s Ex. Madingou and Murphy’s Azurite) resulted in significant unexpected declines in production between 2012 and 2013, as these operations had been underestimated by the companies concerned.

FIGURE 2.1: Oil Production in Congo, 2005–2014



Source: Congolese Authorities.

FIGURE 2.2: Crude Prices – WTI (West Texas Intermediate) and Brent, 2000–2012



Source: Bloomberg.

The price of oil has historically been volatile. Since the first oil shock in 1973, oil prices have fluctuated wildly. Before the current crisis, the most recent volatility dates back to 2008 when the price of Brent crude oil dropped from US\$130/b in July 2008 to US\$39/b in February 2009 (see Figure 2.2). Two years later, in April 2, 2011, the price had rebounded to US\$123/b. There have also been periods of relative price stability, such as from 1990 to 2003 when prices remained steady at between US\$15/b and US\$30/b (low price equilibrium) and from 2011 to 2014, when they fluctuated between US\$100/b and US\$120/b (high price equilibrium). There have also been sharp accelerations, such as from 2004 to 2008 when the price increased from US\$30/b to US\$130/b, and sharp declines, such as between July 2008 and February 2009, when the price fell from US\$130/b to US\$40/b or between July 2014 and January 2015, when the price fell from US\$110/b to US\$50/b.

⁷ This section analyzes the potential impact of various declining oil price scenarios on the economy in the medium term. The analysis covers the period 2015–2020. All channels of transmission for the drop in oil prices to the economy are included (government financing, current account balance, real exchange rate, inflation, etc.).

2.1.2 Favorable production outlook in a context of very low prices

The outlook is for high production levels over the next five years

In 2014, Congo's oil production grew 3.1 percent, for the first time since 2011, owing to the completion of the major maintenance works on offshore sites. No major maintenance operations are planned in the next few years and production at existing sites should be maintained, decreasing only slightly owing to the aging of the wells. Production stood at 91 Mb in 2014 and should remain at around the 90 Mb mark until 2020.

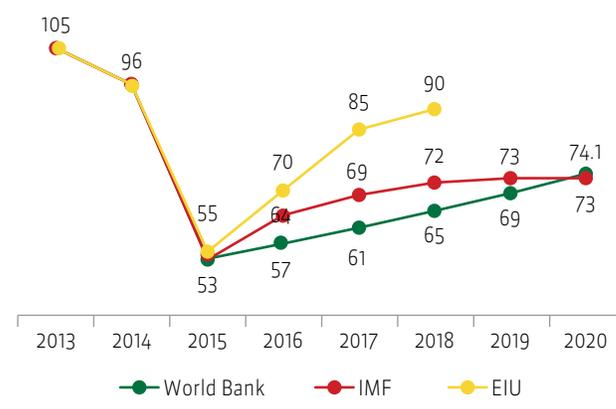
However, new deposits were discovered in 2013 at the Marine 12 site. Reserves are estimated at 3.5 million barrels. Eni has received the concession for part of the site and, according to its projections, production, which started modestly in 2015 at 2 Mb, should plateau in 2018, at which point annual production should total 120 Mb, for an increase in Congolese production of approximately 32 percent over the 2010–2014 period.⁸

Oil prices are expected to remain low

Prices are expected to remain low over the next three years. According to World Bank forecasts in January 2015, prices are expected to remain below US\$70/b for the next three years. This forecast is based on two key factors: (i) the saturation of supply, particularly from the United States, owing to new fracking technologies; and (ii) the contraction of demand from China and the other major emerging countries, particularly those in the Brazil-Russia-India-China-South Africa (BRICS) group.⁹ The outlook for the normalization of relations between the superpowers and Iran following the April 2, 2015 nuclear agreement support this forecast.

The recovery of prices will be slow and the next peak will probably be lower than the last. Following the trough in 2015, at around US\$53/b, prices should begin to rise again to US\$57/b in 2016, US\$61/b in 2017, US\$65/b in 2018, US\$69/b in 2019 and

FIGURE 2.3: Global Oil Price Scenarios, 2013–2020



Sources: World Bank, IMF, EIU, January 2015.

US\$74/b in 2020. The World Bank does not expect a price above \$70/b before 2020. Prices will increase slowly as certain high-cost producers exit the market, which will gradually reduce the supply, and as the demand in the emerging countries increases (see Figure 2.3). This forecast is quite similar to that made by the IMF, which sees a more rapid recovery with the price stabilizing at around US\$70/b from 2017. The EIU (Economist Intelligence Unit) has issued more optimistic forecasts, with a price above US\$80/b in 2017 and at US\$90/b in 2018.

2.2 Fiscal context in Congo

Public spending in Congo has increased substantially since 2006, largely driven by public investments. With the aim of improving the weak basic infrastructure, particularly in the transportation sector, the Congolese Government undertook ambitious

⁸ Government projections indicate a peak of 138 Mb in 2018, followed by a gradual decline starting in 2019.

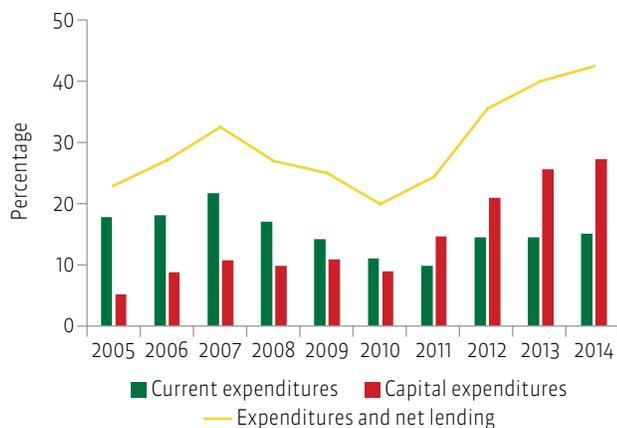
⁹ Ammar *et al.* (2013) use a structural forecasting model based on error correction models to show that the main determinants of the price of oil are: (i) the supply of oil; (ii) the demand for oil; (iii) the rationing of the supply of oil; (iv) speculative demand for oil; (v) the substitution effect; and (vi) the exchange rate effect. More specifically, in the long term, global production of oil and the U.S. dollar drive the price down while global GDP growth drives it upward. In contrast, in the short term, global GDP growth and the S&P500 index drive the price upward while a strong dollar drives it downward.



investment projects in 2006. Since that time, the rate of investment has accelerated appreciably. In 2006, the Government doubled its capital budget. Over the period 2006–2012, public investments increased at an average annual rate of 32.8 percent and over the past two years, they increased at an average annual rate of 10.4 percent (see Figure 2.4).

The Congolese Government has slowed its rate of expenditure since 2013 in an effort to comply with its new fiscal rule. Public expenditures increased 2.2 percent in 2013 and 7.0 percent in 2014. The low rate of growth in 2013 is largely the result of the normalization following the Mpila disaster, which

FIGURE 2.4: Congolese Government Expenditures, 2005–2014, as a ratio to GDP



Source: Congolese Authorities.

was reflected in a 7.8 percent decline in current spending. However, this lower expenditure rule was not consistently applied.

Although the share of oil resources in government revenues has declined over the past four years, they still represented three-quarters of revenues in 2014. In 2012, they represented 78.0 percent. From 2012 to 2014, the decline in production and the almost stable price per barrel of oil led to a substantial reduction in revenues from oil. In 2014, oil represented 72 percent of total government resources.

The Congolese Government should draw down its savings significantly to deal with the current situation and reduce its reserves by about 9 percent per year. Each year from 2003 to 2013, the Congolese Government recorded substantial fiscal surpluses and saved a significant amount. More specifically, the fiscal surplus exceeded 10 percent of GDP for four consecutive years. According to the CCDB report and the budget accounting laws (*lois de règlement*), the Government had accumulated savings estimated at around CFAF 5,500 billion by end-2013. If an average price of US\$53.2/b in 2014 proves to be accurate, it will need to reduce its savings.¹⁰ Indeed, as indicated in the previous section and in Box 2.1, based on the Government’s current accounting, this price will result in a primary deficit of 6 percent. If the Government chooses to finance this deficit by reducing its savings, the latter could decline to around CFAF 5,000 billion at end-2015.

2.3 Toward better management of oil revenues¹¹

The management of oil resource revenues is tricky and presents a number of pitfalls. The Government must handle both volatile prices and the issue of the

¹⁰ Even if the Government makes greater use of borrowing, this will constitute a reduction in its net savings.

¹¹ This section is based on various IMF documents (particularly IMF 2012a and 2012b) and research by World Bank experts on the management of natural resource revenues in countries such as Nigeria and Indonesia.

BOX 2.1: Decline in the Price of Oil and the 2015 Budget

The current period of low oil prices and the uncertainty regarding the average price in 2015 have led the authorities to revise the budget submitted to Parliament in December 2014 downward. In the first version of the budget sent to Parliament in October 2014, the Government worked with a price of US\$95 per barrel in 2015. However, the sharp decline in prices led the Government to revise the price downward and to consider a price of US\$50 per barrel for 2015. In the budget finally adopted, revenues and expenditures were 11 percent lower than in the October version. Compared with the 2014 budget, this represents a 2.9 percent decline, or around 6 percent in real terms.^a Government oil revenues fell almost 25 percent and account for 60 percent of its total revenues.

In this budget, current expenditures declined sharply, by 8.9 percent, from 2014 to 2015. Although the wage bill and personnel spending continue to rise as the Government respects its commitments to civil servants, spending on goods and services was cut more than 15 percent. As well, the Government reduced its transfers by more than 25 percent.

The capital budget also declined. The Government chose to slow its capital spending so as to complete some essential infrastructure and the infrastructure for the first phase of the “accelerated municipalization” program, which this year concerns two municipalities (Ouessou in Sangha Department and Madingou in Bouenza Department). The investments related to the organization of the All Africa Games in September 2015 have been maintained. All necessary investments to complete National Highway No. 1 from Dolisie to Brazzaville and the construction of the new university in Brazzaville (Sassou-Nguesso University at Kintélé) are also maintained.

Source: 2015 budget.

^a This comparison was made with the initial budget for 2014 and not with the revised budget. The revised budget was not adopted until end-October 2014, rather late to be fully implemented. Moreover, the data currently available to us show that only the initial budget was effectively applied.

sustainability of public spending as oil is a nonrenewable resource. It must also ensure the quality of its spending of the revenues collected.

To take the best possible advantage of these resources, the authorities must have a fiscal framework comprising (i) budget tracking indicators; (ii) fiscal rules that ensure sound management of the volatility of short-term prices; (iii) fiscal sustainability criteria; and (iv) rules on the accumulation and management of reserves.

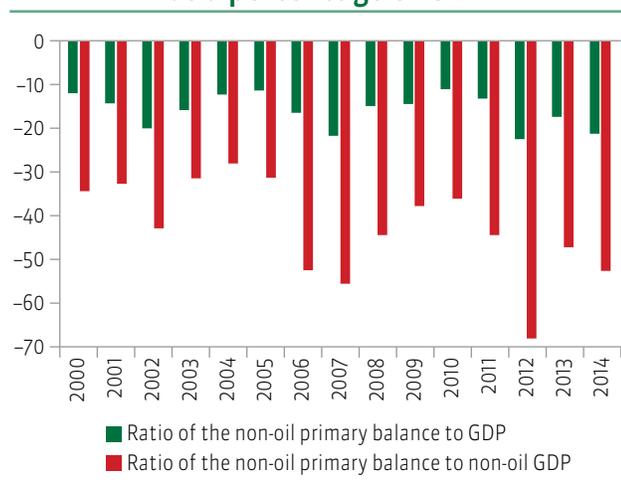
2.3.1 *The NOPB should be the key budget tracking indicator*

The NOPB is the key indicator to assess the fiscal stance. It measures the macroeconomic and fiscal position and identifies the impact of government operations on domestic demand, since oil revenues typically originate abroad. A high NOPB deficit would indicate an expansionary fiscal stance. Setting fiscal policy on the basis of this indicator can help to delink fiscal policy from the volatility of oil revenues and facilitates an explicit link to the development framework.

Congo should use the NOPB as a fiscal anchor, for two reasons. First, if Congo were to smooth the overall balance rather than the NOPB, it would need to adjust spending abruptly when oil revenues are exhausted, which would have disruptive effects on economic activity and the provision of public services. Second, if the NOPB were not used as the fiscal anchor, spending sustainability issues would arise. With forward-looking financial markets, strong pressure are exerted on countries with an excessively high NOPB to the point that abrupt cuts in public spending may be required well ahead of the time when resources are actually depleted (see IMF, 2012a).

The Congolese Government has not tracked the NOPB over the past 15 years. The NOPB has fluctuated between -35 percent and -15 percent of GDP and between -68.4 percent and -28.2 percent of NOGDP. However, this indicator has been more stable than the overall balance, which has fluctuated between 25 percent and -10 percent of GDP (see Figures 2.5 and 2.6). The Government should set a maximum ratio in absolute terms that should not be exceeded. Based on historical data, a simple

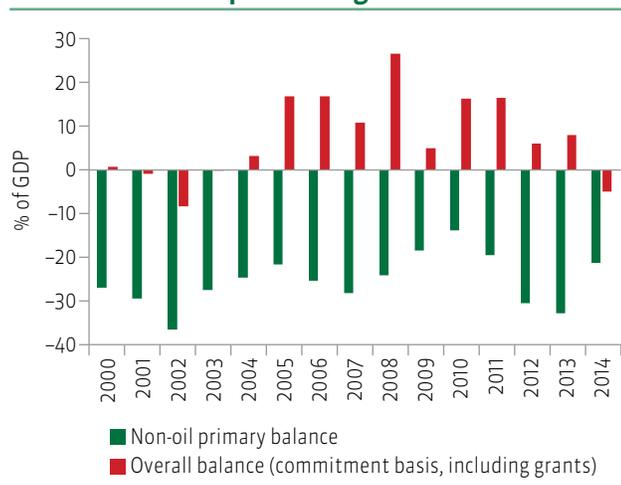
FIGURE 2.5: Congo's NOPB, 2000–2014, as a percentage of GDP



Source: Congolese authorities.

rule establishing an NOPB deficit of –30 percent of NOGDP is easy to apply. With such a rule the Government would have accumulated more than CFAF 12,200 billion over the past fifteen years, or CFAF 6,700 billion more than it did accumulate. If the rule had been set at –35 percent of NOGDP, the Government would have accumulated CFAF 11,000 billion, or CFAF 5,500 billion more (see Figure 2.7).

FIGURE 2.6: NOPB and the Overall Fiscal Balance in Congo, 2000–2014, as a percentage of GDP



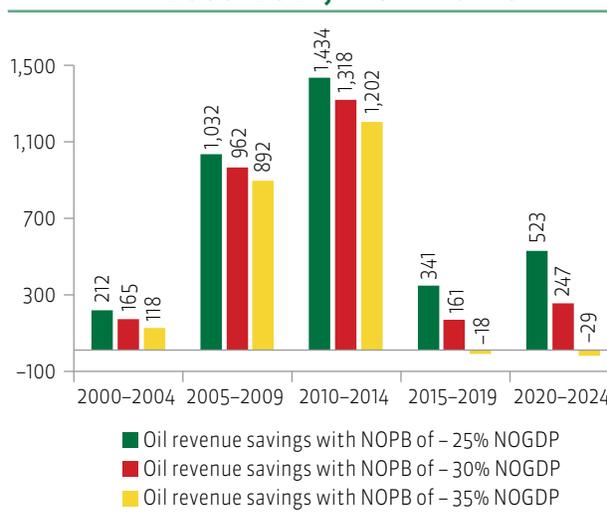
Source: Congolese authorities.

The “structural” primary balance is the most appropriate indicator, assuming that Congo has oil reserves for several decades. This balance is defined as the primary balance excluding the cyclical component of oil revenues. If reserves remain exploitable for several decades, the revenues from these resources can be decomposed into a structural and a cyclical component using various approaches, including a price-based smoothing rule. The structural primary balance is equal to the NOPB plus the structural component of oil revenues. In this manner, the structural primary balance target could be set to ensure a sustainable fiscal policy framework. A filter such as the Hodrick-Prescott filter can be used to set the target. This indicator is complex to calculate, however, and can thus be difficult to track.

2.3.2 Fiscal tracking rules

There are two types of fiscal tracking rules: revenue forecasting rules and expenditure growth rules. Revenue forecasting rules are generally price forecasting rules. They are used in budget forecasting to reduce the volatility of budgeted revenues. There

FIGURE 2.7: Potential Annual Savings based on NOPB rules in Congo, 2000–2024, in CFAF billion



Source: World Bank.

BOX 2.2: Examples of Price Smoothing in Other Countries

Mongolia uses a 16-year moving average of mineral prices (prices of the past 12 years and projected prices for the current and next 3 years). The formula attaches a higher weight to previous years, providing stability in the revenue forecast while allowing for a gradual incorporation of price expectations so that the revenue forecast adjusts gradually to new trends.

Mexico uses a weighted-average of the 10-year historical average of oil prices (25 percent weight), the short-term price (50 percent weight but multiplied by a prudence factor of 0.84 determined on the basis of the standard deviation of oil prices), and medium-term prices (25 percent weight). This specification places a higher weight on forward-looking market-based prices, which should be more responsive to changes in price trends but less smooth for revenue forecasting.

Trinidad and Tobago relies on a moving average of oil prices for the last 5 years, the current year, and the futures prices for the next 5 years. This formula represents an intermediate specification between full historical smoothing and capturing more forward-looking prices.

Ghana projects revenues on the basis of a 7 year moving average of benchmark oil prices, including three projected years.

Source: IMF, 2012a.

are various kinds of growth rules depending on the aims: stability of budgeted spending or achievement of a development plan.

An 8-year moving average of oil prices is the appropriate rule for forecasting budgeted oil revenues

A key decision is the reference price for oil to be used in the budgeting of the Government's oil revenues. Two approaches are possible: the reference or benchmark price can be set by using an automatic formula or by an independent committee of experts. In practice, the former approach is more common (see Box 2.2). Chile, where an independent committee of experts makes a judgment on the medium- to long-term reference price, is an exception. In Congo, however, as in most developing countries,¹² price-based rules should rely on automatic formulas. The adoption of such a rule can bolster the credibility of the result and protect fiscal policy from the pressures of the political cycle. A rule for setting the reference price mitigates the transmission of oil price volatility to the budget cycle thus reducing its procyclicality. Such a rule can help to support the solvency of the Government through “prudent” forecasting of structural revenues by deliberately under-projecting the price of oil.

The choice of price formula reflects a trade-off between a preference for smoothing expenditures

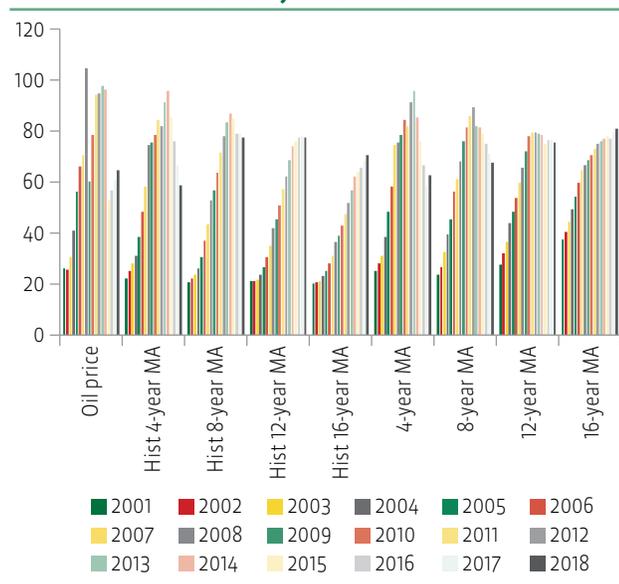
and a need to adjust to changes in price trends.

Budgets relying on price formulas with a short horizon will better track changes in prices, but may be associated with more volatile spending envelopes. In contrast, budgets relying on price rules with long formulas would have smoother expenditure paths but might systematically under- or over-shoot actual revenues if price trends change. In practice, the price smoothing formula can take a number of different forms and may operate as either a fiscal rule or a budgeting procedure to forecast resource revenues.

An assessment of the impact of the various methods for smoothing oil prices over the past 30 years shows that moving averages exceeding 8 years are not responsive to short-term trend reversals (see Figure 2.8). These rules project a systematically rising price over 2001–2018 period, when in fact there have been significant trend reversals. For this reason, Congo should not adopt a moving average exceeding 8 years. Moreover 4-year moving averages are very volatile with standard deviations close to those for the distribution of the standard deviations for the oil price itself and a coefficient of correlation exceeding 0.9 over the period 2001–2014, see Table 2.1.

¹² The limited institutional capacity and scarcity of independent experts in Congo argue in favor of setting the price using an automatic rule (see IMF 2012a).

FIGURE 2.8: Oil Price Trends by Projection Method, 2001–2018^a



Source: World Bank.

^a Hist N-year MA refers to an N-year moving average based on historical data and N-year MA refers to a moving average with equal historical data and forward projections.

The authorities should set an oil price rule using an 8-year moving average. This moving average would use 6 historical years and 2 years of forward projection.¹³ This formula gives greater weight to historical values given the difficulty of predicting oil prices. Its application in Congo during the period 2001–2014 would have reduced the volatility of oil revenues by more than one third. Moreover, with this price, the country would have been able to increase the contribution of oil revenues to the budget by an average of 7 percent over the period with a peak of 14 percent in 2007 and a trough of –2 percent in 2014.

If the Government adopted such a rule, it would need to evaluate it over time to ensure that it is generating an appropriate level of financial savings. A price formula based on a moving average may better smooth expenditure but at the cost of possibly large discrepancies between projected and actual revenues. For a given public expenditure path, such forecast errors will either generate excessive savings when prices

are rising fast or will need to be absorbed by financial buffers when prices decline unexpectedly.

Expenditure growth rules

During the period 2001–2014, a public expenditure growth rule would have helped to limit fiscal procyclicality. Such a rule could have been formulated to limit the growth of government spending in nominal or real terms, or as a ratio to NOGDP. Such a rule could have guided the scaling up of public investment and given the Government time to increase its absorptive capacity. Such a rule would have also helped to smooth out volatility if it had been used in combination with a price-based rule. A growth rule sets floors and ceilings for expenditure growth that can limit fiscal procyclicality. This rule is more effective if it complements an overall balance rule.¹⁴

An example of such an expenditure rule is one that stipulates that resource revenues are to be used for public investment and recurrent spending on health and education. Another example is the permanent income hypothesis (PIH) approach. In this case, the concern to preserve wealth requires that the Government each year consume the implicit real return on financial wealth already accumulated and the implicit return on the net present value of future resource revenues. In practice the NOPB rule in the standard PIH approach can be set in two possible ways: (i) the NOPB can be set at a level that is equal to the real rate of return on accumulated financial assets; and (ii) the NOPB can be set at a level that is consistent with both accumulated and expected financial wealth, basically treating resource wealth in the ground as “virtual” financial wealth and computing the present value by assuming an implicit rate of return. This implies calculation of the value of the resources in the

¹³ IMF 2012a suggests an 8-year moving average with 5 historical years and 3 years of forward projection.

¹⁴ In Peru, for example, the expenditure growth rule was critical in keeping fiscal policy prudent. Adjustments to this rule should ideally be informed by an analysis of absorptive capacity. These adjustments could encompass a wider category of growth-enhancing and priority spending (e.g., education and health).

ground and the associated resource revenues that will accrue to the Government in the future.

During the recent oil price growth phase, the Government did not apply any expenditure rule. The only rule adopted was in 2013 and stipulated that CFAF 1,000 billion should be taken from oil resources for capital spending and that CFAF 500 billion should be allocated to current spending. This rule could not be applied for various reasons, primarily the explosion of domestic arrears, the high levels of expenditure on the All Africa Games, the impact of the decline in oil prices, etc.

In the Congolese context, expenditure rules should be based on the NOPB deficit. For example, expenditure could grow so that the NOPB/NOGDP ratio is equal to -30 percent.¹⁵ This rate would allow for the accumulation of sufficient funds for stabilization purposes. It should be adjusted downward (in absolute terms) as the share of oil in GDP declines. To achieve this ratio, the Government could consider four options: (i) maintain the rate of growth of the main expenditure items while satisfying the NOPB constraint; (ii) allow current expenditure to increase at the real GDP or inflation growth rate and set capital spending as a residual to respect the NOPB ratio; (iii) allow all expenditure items to change at the GDP or inflation growth rate and set spending on goods and service as a residual; and (iv) allow all expenditure items to adjust at the GDP or inflation growth rate and set personnel expenditures as a residual. The rates establishing the constraints on current expenditure produce a greater short-term impact than the constraints on capital spending.

2.3.3 Financial sustainability criteria

The fiscal framework should be guided by an evaluation of fiscal sustainability, i.e., the capacity of the Government to sustain its current spending, taxation and other policies over the long term without jeopardizing its solvency.¹⁶ Such assessments should recognize that there is uncertainty about the amount of the reserves as new discoveries are made constantly. The best option would be to utilize ranges of probabilities

for the reserve horizon. In addition, maintaining a smooth path of current expenditure to avoid the need for a difficult public spending consolidation in future is an important aspect of the sustainability assessments. Two approaches can be used to guide longer-term considerations: a modified PIH (MPIH) approach and a fiscal sustainability approach. The MPIH approach can accommodate the possibility of spending financed by loans, which cannot be accommodated by a traditional PIH framework. Instead of preserving financial wealth over time, the MPIH allows financial assets to be drawn down for a few years during the scaling-up period. The drawdown would be offset by fiscal adjustment in the future to rebuild financial assets to the same level as under the traditional PIH.

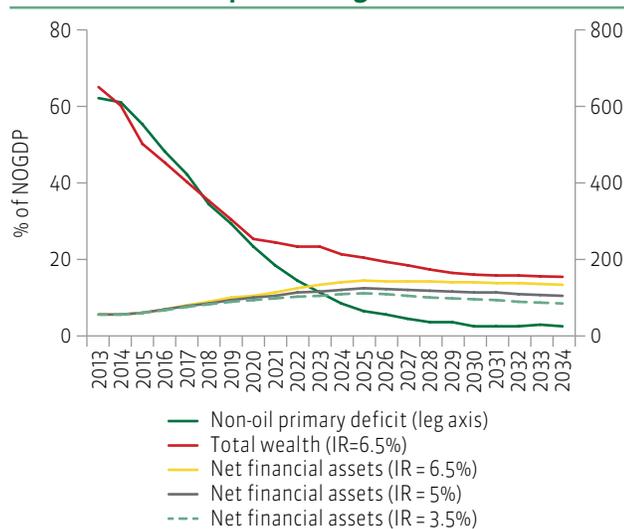
The fiscal sustainability framework explicitly takes into account the intertemporal budget constraint and incorporates ex ante the expected impact of higher investment on growth and non-oil revenues. It can be consistent with an NOPB that allows a drawdown of government wealth (using those assets to build human and physical capital) and eventually stabilizes it at a lower level than the PIH or the MPIH. Lower financial wealth will generate a lower stream of income to the budget than in the PIH-based framework, which will result in a higher NOPB consistent with fiscal sustainability.

According to the IMF (2014), the implementation of a fiscal sustainability framework in Congo would imply a sustainable reduction in the non-oil primary deficit over the medium and long term. Analyses indicate that this deficit should be reduced to around 31 percent of NOGDP by 2019. In the long term it should be reduced even further to stabilize net financial assets at a level dependent on the average return on investments. This constitution of financial assets will help to provide a buffer of assets for future generations

¹⁵ Given the many uncertainties surrounding this type of exercise, this rate could be set between -21 percent and -35 percent.

¹⁶ While all countries need to ensure the sustainability of their fiscal framework, this issue is particularly important for countries with a relatively short reserve horizon. In countries with long reserve horizons, sustainability assessments are useful in focusing attention on the need for intertemporal fiscal savings decisions.

FIGURE 2.9: NOPB, Financial Assets and Wealth, 2013–2034, as a percentage of NOGDP



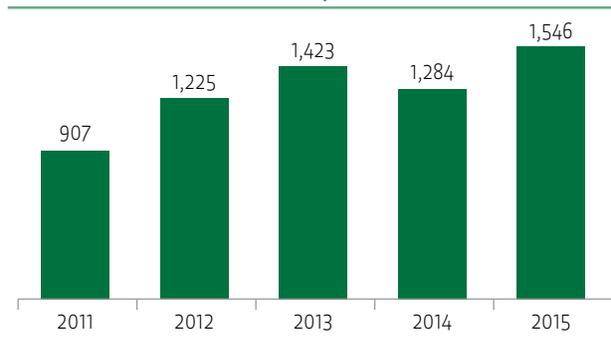
Source: IMF, 2014.

when oil revenues have dried up. The cumulative value of the net financial assets will depend on the average return on investment. It comprises two parts: the initial value and the discounted present value of future oil revenues through to 2034. Assuming that long-term interest rates range between 3.5 percent and 6.5 percent, the net financial value could range between 71 percent and 124 percent of NOGDP by 2034 (see Figure 2.9).

2.3.4 Level of savings required in “good years”¹⁷

Saving for stabilization purposes varies from one year to the next. Such savings totaled CFAF 906 billion in 2011 and CFAF 1,545 billion (22 percent of GDP) in 2015. Assuming that the Congolese Government had used an 8-year moving average rule since 2011 and that current spending had increased at a rate of 10 percent and capital spending at a rate of 3 percent, the stabilization buffer would have had to total around CFAF 905 billion in 2011, CFAF 1,225 billion in 2012, CFAF 1,425 billion in 2013, CFAF 1,285 billion in 2014 and CFAF 1,545 billion in 2015 (see

FIGURE 2.10: Appropriate Size of the Congolese Stabilization Fund, 2011–2015, in CFAF billion



Source: World Bank.

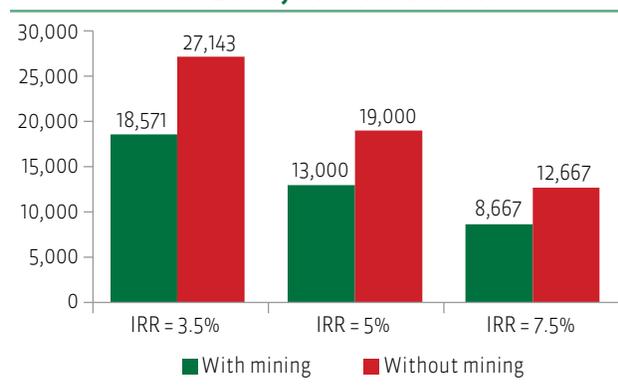
Figure 2.10). These amounts have been determined using the VaR (value at risk) method by simulating the potential volatility of oil prices.¹⁸ The stabilization buffer must be large enough to ensure that, given a fiscal rule based on oil prices with a high degree of confidence (95 percent, for example), more than three years is likely to be needed to fully deplete the buffer. The minimum size of the stabilization buffer is calculated on the basis of the oil production profile and tax regime as well as stochastic simulations of future oil prices. The IMF (2012b) estimates the minimum size of a stabilization buffer for Congo at around CFAF 1,005 billion in 2011.

The stabilization buffer as it exists today seems inappropriate. The resources available in the stabilization fund at the BEAC currently total around CFAF 65 billion, or less than 5 percent of the amount needed. It is possible that funds available at Exim-Bank in China may remedy this situation in part, but we do not have information on the share of funds available in China for stabilization purposes. The Government would do well to ensure that it can correctly calculate the appropriate size of the stabilization fund at any time and obtain said funds as required.

¹⁷ In periods of high oil prices, the Congolese Government should, for stabilization and intergenerational equity reasons, save in anticipation of the depletion of resources.

¹⁸ This type of modeling is often considered more rigorous than simple benchmarking, which does not take volatility into account.

FIGURE 2.11: Congolese Equity Fund Principal in 2035, in CFAF billion



Source: World Bank.

In “good years,” the Government should maintain fiscal balances in the stabilization fund to support a reasonably high confidence level in the availability of sufficient resources in the event of a negative oil price shock. It could also design and implement a trajectory for the accumulation of reserves to build a stabilization buffer and avoid an abrupt adjustment in government spending. Finally, it could establish clear rules for drawdowns of the stabilization fund and strictly eliminate ad hoc payments and withdrawals.

Congo should develop a buffer for equity reasons of up to CFAF 27,000 billion (135 percent of 2035 GDP) by 2035.¹⁹ Assuming that Congo does not discover new reserves, that oil will be depleted by 2034, that the Government will maintain its current expenditure commitments at present levels and that the return on investment will be 3.5 percent, the Government should set up a fund whose dividends will be sufficient to cover its current budget.²⁰ Under these assumptions, the Government will need a fund with a principal of around CFAF 12,000 billion in 2035 (see Figure 2.11). Taking into account the Government’s current strategic plan and its expenditure commitments, current spending should grow 5 percent annually through 2034, while capital spending should fall by CFAF 1,000 billion by 2020 and increase subsequently by 3 percent annually. Assuming as well that the Government maintains its



rate of growth of tax revenues at 7.5 percent and that mining will bring in CFAF 300 billion per year, a financing gap of about CFAF 650 billion will result by 2035. Using the PIH with a rate of return of 5 percent gives the result indicated, i.e., a CFAF 12,000 billion fund. If the Government is not successful in launching mining, it would need an additional CFAF 950 billion and a principal of CFAF 19,000 billion. The principal of the fund will vary depending on the rate of return on investments (see Figure 2.11). The Government is currently working with the World Bank on this issue.

The Congolese Government should therefore adopt a savings plan at the end of the current “lean years.” It currently holds some CFAF 1,000 billion in the future generations fund at the BEAC. Assuming that the Government will not be able to add to it by before 2020, it will need to contribute CFAF 700 billion on average per year to achieve this objective. With the currently projected oil prices and current and capital spending commitments, the Government does not appear to be in a position to achieve that level of savings. For this reason, the other funds in China must be considered. The total savings declared by the Government, as confirmed by the CCDB over the

¹⁹ The size of the buffer depends on the resource horizon, the share of oil resources in the government operating expenditure and the return on investments.

²⁰ There is clearly complementarity between the size of this fund and the investments that the Government could approve to modernize its infrastructure and build its economic capacity and human resources.

TABLE 2.1: Congolese Oil Price Trends, 2001–2014

	Annual price	8-year moving average with 8 historical years	8-year moving average with 3 historical years	8-year moving average with 2 historical years	8-year moving average with 4 historical years
Standard deviation	918	781	645	527	452
Coefficient of variation	0.63	0.73	0.66	0.62	0.66
Coefficient of correlation	1	0.89	0.82	0.73	0.63

Source: World Bank.

past ten years, stand at around CFAF 5,500 billion. Subtracting from this amount the total loans made by China in the amount of CFAF 1,700 billion over the period, the balance is CFAF 3,800 billion in savings, of which CFAF 1,300 billion are held at the BEAC. After a drawdown of some CFAF 1,500 billion for stabilization purposes, the Government would have CFAF 2,300 billion in reserves. According to this hypothesis, by saving around CFAF 450 billion (1 percent of NOGDP) at constant prices starting in 2020, it would be able to achieve its objectives. This reconfirms the importance of ensuring the transparency and sound management of the reserves in China.

Congo also needs to take into account the uncertainty in the return on investment. Policy-makers rightly worry about the volatility and uncertainty of oil revenues, but the return on saving/investing is risky too and could even be negative in some instances, which adds an additional source of difficulty in the management of oil resources. Consequently, it is important to calculate risk-adjusted returns before any investments and to compare the result with the return on safer assets or a more rapid repayment of debt. This is why the Government should have a risk management strategy for current and future investments.

A good risk management strategy for the Congolese Government would consist first in the publication of its investment objectives and their constraints and the performance of the funds placed at the BEAC and in China. For stabilization reasons, the funds should be composed, relatively conservatively, of short-term high-quality liquid assets

denominated in freely convertible currencies with very little correlation with oil prices (for example, the U.S. dollar, the euro, etc.). This portfolio should be diversified among various currencies to reduce the level of risk. For the intergenerational equity funds, which are long-term, the question of liquidity does not arise. They should be diversified, i.e., include high-yield assets from various countries and various sectors and currencies. The composition should be changed regularly (perhaps annually) to take account of known changes in yields and risk levels of assets.

2.3.5 Fiscal institutions

Congo should equip itself with well-designed fiscal institutions to develop and maintain sound fiscal policies—particularly institutions guaranteeing transparency and special fiscal institutions, such as natural resource funds and independent forecasting bodies, to ensure prudent planning and utilization of resource revenues. The public finance management system should be sufficiently robust (i) to provide reasonable forecasts for natural resource prices, production and fiscal revenues, and to analyze related risks; (ii) to carry out medium-term budget planning; (iii) to facilitate investment project appraisal, selection and implementation to ensure that resource revenues are used to support long-term economic development; (iv) to integrate cash management and minimize financing costs to ensure a single route between the budget and any natural resource fund; and (v) to ensure transparency in the collection and utilization

of natural resource revenues, and other available resources, through appropriate fiscal accounting, reporting, and auditing.

Fiscal transparency and good governance should be given prominence when fiscal institutions are established. Congo does not yet have relatively inclusive political institutions, i.e., ensuring full participation of communities or populations in the choice of local investments. As a result, scaling up public investment might be counterproductive because the budget process does not necessarily reflect broader social preferences (see World Bank, 2015, with the example of airports). This involves several issues, including an assessment of the clarity of the roles and responsibilities of the various government entities; establishment of an open budget process; public availability of information; and assurances of data integrity. The government could design and establish an accountability mechanism in line with best accounting practices covering internal controls and external audits.

A single fund covering the stabilization and savings portfolios could be created for an integrated approach to the management of the Government's financial assets. An explicit strategy for transfers between these two portfolios could be planned, once a certain (relatively low) threshold is reached to avoid costly expenditure adjustments. The creation of separate entities would require human resources capable of guaranteeing better quality management of these funds.

Congo should ensure a good return on the infrastructure investment resulting from oil resources. Institutional and governance arrangements should ensure the socioeconomic profitability of the infrastructure selected and the effectiveness of the investments. The creation of the Congolese Investment Fund and the *Caisse de dépôts et de consignations* is very encouraging in this regard. It implies the existence of: (i) a medium-term expenditure framework for the budgeting of investments; (ii) rigorous and transparent procedures for the assessment and approval of investments; (iii) public tendering for infrastructure contracts; (iv) monitoring and auditing of projects; and (v) well-equipped managerial resources.

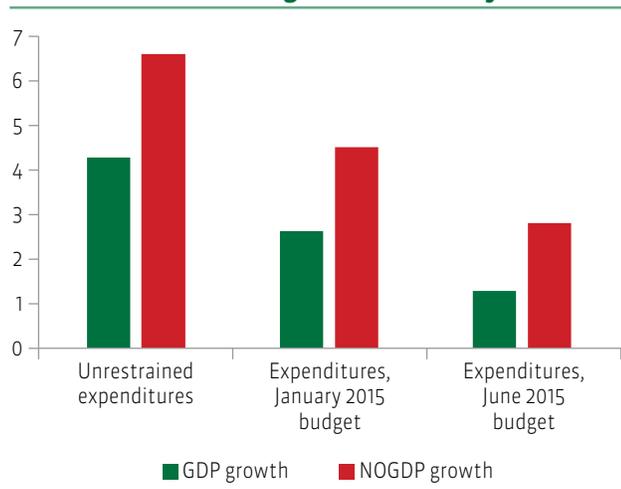


2.4 Implications of current oil prices for fiscal management

The fiscal policy analytical framework shows that the anchor for Congo's fiscal policy should consider both the introduction of a fiscal rule to smooth revenues projected in the budget and capital spending and be based on the assessment of an adequate capital spending envelope for periodic scaling up. Medium-term spending trends should be calibrated each year to ensure fiscal sustainability and the quality of spending in line with the absorptive and implementation capacity. The rate of growth of expenditure should be compatible with the improvement in public finance management.

This analytical framework implies that, having accumulated reserves in the period of high oil prices, the Government would do well to use them to absorb the expenditure adjustments in the coming years. While the discussions are currently around a zero deficit policy, the Government should be wary of such an option during this crisis period. Such a policy would be procyclical and would amplify the harmful effects of lower oil prices on the economy. Under some circumstances, it could even plunge the country into recession (see Figure 2.12). Any policy to drastically reduce spending on goods and services would have serious repercussions for growth because it would very strongly affect small and medium-sized enterprises, which are the engines of growth of services not related to the oil sector. A decline in

FIGURE 2.12: Potential Impact of Unrestrained Public Spending on the Congolese Economy in 2015

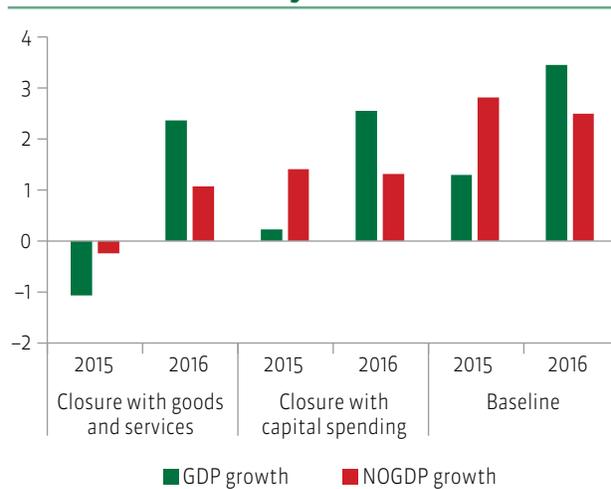


Source: World Bank.

capital spending, while having medium and long-term repercussions, would affect the economy to a lesser extent since most of the companies involved in large infrastructure projects are foreign companies.

If the Congolese Government had followed a fiscal rule similar to the one presented here, it would be in a position to apply a countercyclical policy and would have been able to reduce the impact of the oil price shock on the economy by more than 1 percentage point. If the Government had used an 8-year moving average to set its budgeted prices, the price of oil in 2015 would have been set at US\$79 per barrel resulting in budget revenues totaling

FIGURE 2.13: Impact of the Zero Deficit Policy on the Congolese Economy in 2015 and 2016



Source: World Bank.

CFAF 1,340 billion and it would have been possible to maintain the level of expenditures initially planned by using the funds saved in the stabilization fund. The Congolese economy would therefore have been able to grow at a rate of 2.6 percent in 2015, stimulated by the non-oil sector, which would have been able to grow by 4.5 percent, as against 7.3 percent in 2014. The country would have been able to gain 1.3 percentage points in real GDP growth and 1.7 percentage points in growth of the non-oil sector (see Figure 2.13). The Congolese Government should consider the adoption of a fiscal rule anchored on the NOPB and comprising a price rule and a rule for adequate expenditure.



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ANNEXES

TABLE A.1: Republic of Congo – Selected macroeconomic indicators, 2010–2017

	2010	2011	2012	2013	2014 Est.	2015	2016 Proj.	2017
GDP growth (constant prices, annual %)	8.7	3.4	3.8	3.3	6.4	1.3	3.5	5.7
GDP growth – oil (constant prices, annual %)	13.7	–4.8	–9.6	–10.0	3.1	–4.0	7.0	10.0
GDP growth – non-oil (constant prices, annual %)	6.4	7.5	9.7	8.1	7.4	2.8	2.5	4.5
Private Consumption growth (current prices, annual %)	5.4	7.9	9.9	3.8	5.8	2.9	1.9	9.0
Gross Fixed Investment (current prices, % of GDP)	29.7	34.5	43.2	46.6	50.6	71.8	69.3	65.4
Gross Fixed Investment – Public (current prices, % of GDP)	7.9	11.7	18.8	25.8	28.5	40.4	38.1	35.1
Gross Fixed Investment – Private (current prices, % of GDP)	21.8	22.8	24.4	20.8	22.1	31.4	31.2	30.3
Inflation, consumer prices (annual %, end of year)	5.4	1.8	7.5	2.1	0.5	3.0	2.6	2.6
Inflation, consumer prices (annual %, period average)	5.0	1.8	5.0	4.6	0.9	3.0	2.9	2.8
GDP deflator (annual %, average)	26.9	11.0	–3.8	–3.4	–5.6	–27.3	6.2	6.6
Nominal Exchange Rate (CFAF/US\$, period average)	494.4	471.0	510.0	494.2	494.6	582.8	494.6	494.6
Real Effective Exchange Rate Index (2005=100)	108.7	107.9	106.4	112.3				
Overall Fiscal Balance (commitment basis, incl. grants % of GDP)	16.5	16.7	6.1	8.2	–4.9	–12.3	–8.9	–7.2
Overall Fiscal Balance (commitment basis, excl. grants % of GDP)	16.5	16.3	6.0	7.8	–5.1	–12.3	–8.9	–7.2
Overall Fiscal Balance (commitment basis, incl. grants % of non-oil GDP)	54.5	56.3	18.5	22.2	–12.2	–18.8	–16.1	–8.6
Primary Fiscal Balance (% of GDP)	17.9	19.4	10.0	15.6	–0.1	–1.9	–0.5	3.2
Non-oil Primary Fiscal Balance (% of non-oil GDP)	–36.3	–44.7	–68.4	–47.5	–52.8	–34.0	–29.6	–25.1
Total revenue (excl. grants, % of GDP)	36.6	40.9	41.8	44.1	33.6	36.2	33.4	33.3
Oil revenue (% of GDP)	28.9	32.7	32.6	32.5	21.3	17.9	16.2	16.9
Non-oil revenue (% of non-oil GDP)	25.5	27.8	27.9	31.4	30.4	31.5	30.4	30.2
Merchandise exports (fob, current US\$ billions)	7.1	8.7	7.3	6.7	7.2	4.8	5.7	6.6
of which oil exports (current US\$ billions)	6.4	7.9	6.5	5.8	6.3	4.0	4.7	5.6

(continued on next page)

TABLE A.1: Republic of Congo – Selected macroeconomic indicators, 2010–2017 *(continued)*

	2010	2011	2012	2013	2014 Est.	2015 Proj.	2016 Proj.	2017 Proj.
Merchandise imports (fob, current US\$ billions)	5.7	6.7	8.6	9.1	5.9	5.0	6.0	6.3
of which oil exports (current US\$ billions)	0.9	1.1	1.0	0.9	1.0	0.8	1.0	1.0
Current account balance (incl. transfers, % of GDP)	-0.1	-0.1	-0.3	-5.2	-6.3	-13.0	-14.5	-10.4
Foreign Direct Investment (net, current US\$ billions)	3.0	3.3	2.0	4.6	5.1	5.5	3.9	18.1
of which oil sector (net, current US\$ billions)	2.5	2.7	1.2	3.4	3.5	3.8	1.5	15.5
Population, total (millions)	4.0	4.1	4.3	4.4	4.5	4.7	4.8	4.9
Unemployment Rate	—	6.9	—					
Formal sector job creation (% yoy)	—	—	—					
Poverty headcount ratio at national poverty line (% of population)	—	46.5	—					
Inequality – Income Gini	—	0.38	—					
Population Growth (annual %)	2.0	2.9	2.9	2.9	0	2.9	2.9	2.9
Life Expectancy	—	51.6	—					
Infant mortality rate (per 1,000 live births)	42.0	39.4	37.3	35.6				

Sources: Congolese authorities, World Bank.

TABLE A.2: Republic of Congo – Real GDP growth rates, 2011–2017

	2011	2012	2013	2014	2015	2016	2017
	Est.			Proj.			
Primary sector	-1.9	-5.2	-4.7	4.7	-0.8	5.8	7.8
Agric., livestock, hunt, fishery	7.9	7.8	8.5	8.2	5.0	4.0	4.0
Agric., livestock,	8.0	8.3	9.0	8.7	5.0	4.0	4.0
Hunt	6.5	5.2	5.8	5.0	5.0	4.0	4.0
Fishery	8.0	6.1	6.7	6.5	5.0	4.0	4.0
Forestry	1.6	3.0	3.1	6.0	6.7	0.9	1.6
Extractive Industries	-4.8	-9.6	-10.0	3.1	-4.0	7.0	10.0
Petroleum sector	-4.8	-9.6	-10.0	3.1	-4.0	7.0	10.0
Other extractive industries	0.0	1.0	2.0	3.0	4.0	5.0	6.0
Secondary sector	8.7	8.7	8.9	7.6	4.5	3.3	5.1
Manufacturing industries	8.6	8.6	9.0	6.6	4.2	3.4	5.2
Food industries	8.0	8.4	9.0	9.4	4.1	2.9	5.1
Other manufacturing industries	9.6	8.8	9.0	2.3	4.4	4.2	5.5
Electricity, gas and water	7.4	7.5	7.0	7.2	4.9	1.5	5.0
Constructions.& public works	10.5	10.5	10.2	12.1	5.2	4.0	4.4
Tertiary sector	7.2	10.8	7.9	7.5	1.7	2.0	4.5
Transports and Communications	9.2	9.1	9.1	7.1	5.6	4.0	7.5
Transports	8.5	8.6	8.5	7.0	5.6	4.2	7.4
Communications	10.4	9.8	10.0	7.2	5.6	3.6	7.6
Commerce, restaurants, hotels	9.2	9.5	9.2	7.5	6.1	4.6	7.6
Public Administration	3.2	17.7	7.4	9.7	-8.0	-5.0	-5.0
Other services	6.7	6.0	4.4	4.5	3.6	4.0	6.6
GDP at factor cost	3.3	3.7	3.1	6.5	1.2	3.5	5.8
Import taxes	6.6	8.1	8.1	4.7	2.6	2.8	5.9
GDP at constant prices	3.4	3.8	3.3	6.4	1.3	3.5	5.8
Non-oil	7.5	9.7	8.1	7.4	2.8	2.5	4.6
Mining	0.0	1.0	2.0	3.0	4.0	5.0	6.0
Oil	-4.8	-9.6	-10.0	3.1	-4.0	7.0	10.0

Sources : Congolese authorities, World Bank.

TABLE A.3: Republic of Congo – Sectoral contribution of real output, 2011–2017, percent of GDP

	2011	2012	2013	2014	2015	2016	2017
	Est.			Proj.			
Primary sector	73.9	70.9	67.6	64.4	48.9	50.5	52.2
Agric., livestock, hunt, fishery	3.3	3.6	4.1	4.6	6.7	6.6	6.3
Agric., livestock	2.7	3.0	3.4	3.8	5.7	5.6	5.3
Hunt	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Fishery	0.3	0.4	0.4	0.4	0.6	0.6	0.6
Forestry	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Extractive Industries	70.3	67.0	63.3	59.6	41.8	43.5	45.6
Petroleum sector	70.3	67.0	63.3	59.6	41.8	43.5	45.6
Other extractive industries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary sector	7.0	7.8	8.8	9.8	14.3	13.8	13.3
Manufacturing industries	3.5	3.8	4.3	4.7	6.7	6.4	6.0
Food industries	2.6	2.8	3.1	3.5	5.0	4.7	4.4
Other manufacturing industries	0.9	1.0	1.2	1.2	1.7	1.7	1.6
Electricity, gas and water	0.6	0.6	0.7	0.8	1.1	1.0	1.0
Constructions.& public works	2.9	3.3	3.8	4.3	6.4	6.4	6.3
Tertiary sector	17.4	19.4	21.5	23.5	33.5	32.5	31.4
Transports and Communications	4.0	4.4	5.0	5.4	8.1	8.1	8.2
Transports	2.9	3.2	3.6	4.0	5.9	6.0	6.0
Communications	1.1	1.2	1.3	1.5	2.2	2.2	2.2
Commerce, restaurants, hotels	5.5	6.0	6.8	7.4	11.0	11.1	11.1
Public Administration	3.4	4.1	4.5	5.1	6.5	5.8	5.0
Other services	4.6	4.9	5.3	5.6	7.9	7.5	7.1
GDP at factor cost	98.3	98.1	97.9	97.7	96.7	96.8	96.9
Import taxes	1.7	1.9	2.1	2.3	3.3	3.2	3.1
GDP at constant prices	100.0						
Non-oil	29.7	33.0	36.7	40.4	58.2	56.5	54.4
Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil	70.3	67.0	63.3	59.6	41.8	43.5	45.6

Sources: Congolese authorities, World Bank.

TABLE A.4: Republic of Congo – Use of resources at current prices, 2010–2016, percent of GDP

	2011	2012	2013	2014	2015	2016	2017
	Est.			Proj.			
Gross domestic product (GDP)	100.0						
Domestic demand	64.0	76.9	87.6	95.9	144.1	135.2	129.4
Consumption	29.6	33.7	41.0	45.3	72.3	65.8	64.0
Public (Government)	7.3	8.9	8.3	9.6	11.9	13.0	12.4
Private	22.2	24.8	32.7	35.6	60.3	52.9	51.6
Domestic investment	34.5	43.2	46.6	50.6	71.8	69.4	65.4
Fixed expenditure	34.5	43.2	46.6	50.6	71.8	69.3	65.3
Public (Government)	11.7	18.8	25.8	28.5	40.4	38.1	35.1
Private (Enterprises et households)	22.8	24.4	20.8	22.1	31.4	31.2	30.3
Petroleum sector	19.0	19.9	15.0	15.4	20.5	19.8	19.0
Mining sector							
Others sectors (Non-oil and mining)	3.8	4.5	5.7	6.8	11.0	11.5	11.3
Variation of stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	36.0	25.9	12.4	4.1	-44.1	-35.2	-29.4
Exports of G and NFS (BOP)	84.9	93.2	84.3	80.3	62.2	63.7	65.6
Goods	81.6	90.0	80.8	76.5	56.8	58.5	60.5
Oil exports	77.3	85.6	76.5	72.1	50.6	52.7	55.1
Others exports (Non-oil)	4.3	4.3	4.2	4.4	6.3	5.8	5.4
Non-factor services	3.3	3.2	3.5	3.8	5.4	5.2	5.0
Imports of G and NFS (BOP)	-49.0	-67.3	-71.8	-76.2	-106.3	-98.8	-95.0
Goods	-24.5	-36.9	-40.6	-43.8	-62.1	-57.7	-55.1
Oil imports	-7.2	-7.3	-6.7	-6.8	-8.9	-8.6	-8.4
Others imports (Non-oil)	-17.3	-29.6	-33.9	-37.0	-53.1	-49.1	-46.8
Non-factor services	-24.4	-30.4	-31.2	-32.3	-44.2	-41.1	-39.9

Sources : Congolese authorities, World Bank.

TABLE A.5: Republic of Congo – Central Government Operations, 2011–2017, percent of GDP

	2011	2012	2013	2014	2015	2016	2017
					Proj.		
1. Revenue and grants	41.3	42.0	44.9	33.8	36.2	33.4	33.3
Revenue	40.9	41.8	44.1	33.6	36.2	33.4	33.3
Oil and mining revenue	32.7	32.6	32.5	21.3	17.9	16.2	16.9
Oil revenue	32.7	32.6	32.5	21.3	17.9	16.2	16.9
Mining revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil revenue	8.2	9.2	11.5	12.3	18.3	17.2	16.4
Fiscal taxes	7.9	8.9	11.0	12.1	17.7	16.8	16.1
Non tax revenue	0.4	0.3	0.5	0.2	0.6	0.4	0.4
Grants	0.4	0.1	0.4	0.2	0.0	0.0	0.0
2. Expenditure and net lending	24.7	35.9	36.7	38.7	47.1	42.5	38.0
Current expenditure	9.9	14.7	13.6	15.7	20.0	21.5	20.5
Wage bill	3.0	3.6	3.9	4.6	7.1	7.4	7.3
Other current expenditure (primary)	6.8	10.9	9.3	10.9	12.5	11.5	10.3
Material and supplies	2.6	4.0	3.7	4.8	4.8	4.3	3.7
Common charges	1.0	1.6	1.4	1.5	3.3	1.9	1.7
Fiscal reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	2.6	4.8	3.8	4.3	4.4	4.3	4.0
Local authorities	0.6	0.6	0.5	0.3	0.0	1.0	0.9
Interest on public debt	0.2	0.2	0.3	0.2	0.3	2.6	2.9
Domestic	0.0	0.0	0.0	0.0	0.0	0.3	0.0
External	0.2	0.2	0.2	0.2	0.3	2.3	2.9
Capital expenditure	14.8	21.2	23.2	23.0	27.2	21.0	17.5
Domestically financed	11.8	17.3	15.6	18.1	18.4	15.0	12.5
Externally financed	3.0	3.9	7.5	4.8	8.7	6.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, domestic resources basis	19.4	10.0	15.6	-0.1	-1.9	-0.5	3.2
Non-oil primary balance	-13.3	-22.6	-17.4	-21.4	-19.8	-16.7	-13.6
Balance, commitment basis, excluding grants	16.3	6.0	7.8	-5.1	-10.9	-9.1	-4.7
Balance, commitment basis, including grants	16.7	6.1	8.2	-4.9	-10.9	-9.1	-4.7
Change in arrears (- = decrease)	-1.3	-0.9	-2.6	-0.7	-2.3	-2.4	-1.9
Domestic (principal and interest)	-1.3	-0.9	-2.6	-0.7	-2.3	-2.4	-1.9
External (principal and interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance, cash basis	15.4	5.2	5.6	-5.6	-13.2	-11.5	-6.6
3. Financing	-15.4	-5.2	-5.6	5.6	13.2	11.5	6.6
Foreign (net)	-1.1	2.7	5.4	16.0	25.6	18.0	14.4
Domestic (net)	-14.3	-7.9	-11.0	-10.4	-11.4	-8.8	-7.7
Residual financing gap	0.0	0.0	0.0	0.0	-1.0	2.3	0.0

Sources: Congolese authorities, World Bank.

TABLE A.6: Republic of Congo – Central Government Operations, 2011–2017, percent of non oil GDP

	2011	2012	2013	2014	2015	2016	2017
	Est.			Proj.			
1. Revenue and grants	139.3	127.2	122.2	83.5	62.2	59.1	61.2
Revenue	137.9	126.7	120.0	83.0	62.2	59.1	61.2
Oil and mining revenue	110.2	98.8	88.6	52.6	30.8	28.7	31.0
Oil revenue	110.2	98.8	88.6	52.6	30.8	28.7	31.0
Mining revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil revenue	27.8	27.9	31.4	30.4	31.5	30.4	30.2
Fiscal taxes	26.5	26.9	29.9	30.0	30.4	29.7	29.5
Non tax revenue	1.3	1.0	1.4	0.4	1.0	0.7	0.7
Grants	1.4	0.4	1.0	0.5	0.0	0.0	0.0
2. Expenditure and net lending	83.1	108.6	100.0	95.7	81.0	75.2	69.8
Current expenditure	33.3	44.4	36.9	38.9	34.3	38.1	37.6
Wage bill	10.0	10.8	10.8	11.4	12.2	13.1	13.4
Other current expenditure (primary)	22.8	33.1	25.4	27.0	21.5	20.3	18.8
Material and supplies	8.8	12.1	10.1	11.8	8.3	7.5	6.7
Common charges	3.2	4.9	3.8	3.6	5.6	3.4	3.2
Transfers	8.7	14.5	10.3	10.7	7.6	7.6	7.4
Local authorities	2.1	1.7	1.2	0.8	0.0	1.7	1.6
Interest on public debt	0.5	0.6	0.7	0.5	0.5	4.7	5.4
Domestic	0.0	0.0	0.1	0.0	0.0	0.5	0.0
External	0.5	0.6	0.6	0.5	0.5	4.1	5.4
Capital expenditure	49.7	64.2	63.1	56.9	46.7	37.2	32.2
Domestically financed	39.6	52.4	42.6	44.9	31.7	26.6	23.0
Externally financed	10.1	11.8	20.5	12.0	15.0	10.6	9.2
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, domestic resources basis	65.5	30.4	42.4	-0.2	-3.3	-0.8	5.9
Non-oil primary balance	-44.7	-68.4	-47.5	-52.8	-34.0	-29.6	-25.1
Balance, commitment basis, excluding grants	54.9	18.1	21.2	-12.7	-18.8	-16.1	-8.6
Balance, commitment basis, including grants	56.3	18.5	22.2	-12.2	-18.8	-16.1	-8.6
Change in arrears (- = decrease)	-4.4	-2.8	-7.1	-1.7	-4.0	-4.3	-3.5
Domestic (principal and interest)	-4.4	-2.8	-7.1	-1.7	-4.0	-4.3	-3.5
External (principal and interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance, cash basis	51.8	15.7	15.2	-13.9	-22.7	-20.4	-12.1
3. Financing	-51.8	-15.7	-15.2	13.9	22.7	20.4	12.1
Foreign (net)	-3.8	8.3	14.7	39.6	44.1	31.9	26.4
Domestic (net)	-48.0	-24.1	-29.8	-25.7	-19.6	-15.6	-14.2
Residual financing gap	0.0	0.0	0.0	0.0	-1.7	4.1	0.0

Sources: Congolese authorities, World Bank.

TABLE A.7: Republic of Congo – Executed Budget, 2008–2014, Percent of total Budget

	2008	2009	2010	2011	2012	2013	2014
	Est.						
1. Revenue and grants	100.0						
Revenue	100.0	98.9	100.0	99.0	99.7	98.2	99.4
Oil and mining revenue	86.0	69.8	79.0	79.1	77.7	72.5	63.0
Oil revenue	86.0	69.8	79.0	79.1	77.7	72.5	63.0
Mining revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil revenue	14.0	29.1	21.0	19.9	21.9	25.7	36.4
Fiscal taxes	12.4	26.7	20.0	19.0	21.2	24.5	35.9
Non tax revenue	1.6	2.4	1.1	0.9	0.7	1.2	0.5
Grants	0.0	1.1	0.0	1.0	0.3	0.8	0.6
2. Expenditure and net lending	50.3	82.9	55.0	59.6	85.4	81.8	114.6
Current expenditure	31.8	46.7	30.5	23.9	34.9	30.2	46.5
Wage bill	6.7	13.1	8.1	7.2	8.5	8.8	13.6
Other current expenditure (primary)	19.0	28.1	19.8	16.4	26.0	20.8	32.3
Material and supplies	7.1	10.9	8.0	6.3	9.5	8.2	14.1
Common charges	1.7	2.0	2.2	2.3	3.8	3.1	4.3
Transfers	9.2	12.3	7.7	6.3	11.4	8.5	12.8
Local authorities	0.9	1.8	1.9	1.5	1.3	1.0	0.9
Interest on public debt	6.1	5.5	2.6	0.4	0.4	0.6	0.6
Domestic	0.4	0.7	0.1	0.0	0.0	0.1	0.0
External	5.7	4.8	2.6	0.4	0.4	0.5	0.6
Capital expenditure	18.4	36.2	24.5	35.7	50.5	51.6	68.1
Domestically financed	15.8	35.1	23.1	28.4	41.2	34.9	53.8
Externally financed	2.6	1.2	1.4	7.3	9.2	16.8	14.3
Net lending	0.0	0.1	0.0	0.0	0.0	0.0	0.0
3. Budget surplus	49.7	16.8	45.0	40.4	14.6	17.7	0.0
Fiscal surplus, in percent of GDP	26.9	5.2	16.5	16.7	6.1	8.2	1.8

Sources: Congolese authorities, World Bank.